# *United States Court of Appeals for the Second Circuit*

# EXHIBITS

ORIGINAL

# 77-7125 77-7126

# United States Court of Appeals For the Second Circuit

DOROTHY L. COLE, LOIS H. ZISOOK, HARRY W. VOEGE and ANNA MAY TUNMORE, as Trustees, SAMUEL GREENFIELD FUND, INC. and HAROLD STILLER and MILDRED STILLER, as joint tenants,

*Plaintiffs,*

DOROTHY L. COLE, HARRY W. VOEGE, and ANNA MAY TUNMORE, as Trustees, and HAROLD STILLER and MILDRED STILLER, as joint tenants,

*Plaintiffs-Appellants,*

v.

SCHENLEY INDUSTRIES, INC., GLEN ALDEN CORPORATION, RAPID-AMERICAN CORPORATION, ISIDORE A. BECKER, BERNARD GOLDBERG, PAUL A. JOHNSTON, DAVID A. CHERNOW, WALTER O. HEINZE, HOWARD FELDMAN, MILO B. HOPKINS, RUSSELL G. SMITH, ALBERT N. GREENFIELD, MESHULAM RIKLIS, GLEN ALDEN SUBSIDIARY, INC., P.J. CLIFFORD, W.P. JOHNSON, S. KITTAY, M.L. MENDELL, L.C. LANE, G.H. PERKINS and B. DENMARK,

*Defendants-Appellees.*

EXHIBITS (Pages A948-A1474)

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A 948

EX. I

# SCHENLEY INDUSTRIES, INC.

## *Notice of Annual Meeting of Stockholders*

To the Holders of the Common Stock,
$1.40 Cumulative Convertible Preferred Stock and
Cumulative Preference Stock of
SCHENLEY INDUSTRIES, INC.:

The Annual Meeting of the Stockholders of SCHENLEY INDUSTRIES, INC. ("Schenley") will be held at the office of Schenley, at No. 100 West Tenth Street, in the City of Wilmington, State of Delaware, at 11:00 o'clock in the forenoon on June 17, 1971 for the purpose of considering and acting upon:

1. Adoption of the Plan and Agreement of Reorganization, a copy of which is set forth as Exhibit A to the Proxy Statement accompanying this Notice, and the Agreement of Merger, a copy of which is set forth as Exhibit B to such Proxy Statement, providing for, among other things, the merger of Glen Alden Subsidiary, Inc., a Delaware corporation, with and into Schenley on the terms and conditions set forth in said Agreement of Merger;

2. The election of directors;

3. Approval of the designation of Haskins & Sells as the independent auditors of Schenley for the calendar year 1971; and

4. Such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only holders of record of the Common Stock and $1.40 Cumulative Convertible Preferred Stock at the close of business on May 10, 1971 are entitled to vote at the Annual Meeting.

By Order of the Board of Directors

MILTON B. SEASONWEIN,
*Secretary*

Dated: May 21, 1971.

**Whether or not you plan to attend the meeting, please complete, date and sign the enclosed proxy card and mail it promptly in the accompanying envelope in order to assure representation of your shares. No postage need be affixed if mailed in the United States.**

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| Plan and Agreement of Reorganization | Exhibit A |
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*Proxy Statement*

# ANNUAL MEETING OF STOCKHOLDERS OF SCHENLEY INDUSTRIES, INC.

**This Proxy Statement should be read carefully. Glen Alden Corporation has the necessary voting power to cause the proposed reorganization discussed herein to be consummated even if all other stockholders of Schenley vote against the reorganization, and Glen Alden intends to vote in favor of the proposed reorganization. Further, Glen Alden, through its stock ownership in Schenley, has elected all the current directors of Schenley, who have approved the proposed reorganization. Under the circumstances, stockholders of Schenley might desire to give the terms of, and the consequences resulting from, the proposed reorganization more careful scrutiny than they would if the proposed reorganization had been negotiated and approved by an entirely disinterested and independent Board of Directors.**

**It should also be noted that, in connection with the reorganization, Schenley will transfer to Glen Alden substantial funds of Schenley, including a substantial part of the proceeds received by Schenley from the recent sale of its subsidiary, The Buckingham Corporation.**

**There are pending several litigations brought on behalf of the minority stockholders of Schenley, which, among other things, seek to enjoin the proposed reorganization.**

**The material under the following captions should be noted especially: "Terms of the Reorganization"; "Certain Significant Aspects of the Proposed Reorganization"; "Right of Appraisal"; "Litigation in Respect of the Proposed Reorganization"; "History and Business of Schenley—Recent Developments"; and "Comparative Data."**

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The Annual Meeting of the Stockholders of SCHENLEY INDUSTRIES, INC. ("Schenley") will be held on June 17, 1971, at the time and place and for the purposes set forth in the accompanying Notice of Meeting and in this Proxy Statement. The accompanying form of proxy is solicited on behalf of the management of Schenley in connection with such meeting or any adjournments thereof.

A proxy in the accompanying form which is properly executed, duly returned to management, and not revoked will be voted in accordance with the instructions contained therein. If no instructions are given with respect to any particular matter to be acted upon, proxies will be voted for the election of directors and as indicated on the proxy form in respect of any other matter. Each such proxy granted may be revoked at any time prior to its exercise by written notice to the Secretary of Schenley, by submission of another proxy bearing a later date, or by voting in person at the meeting.

At May 10, 1971, the record date for the meeting, Schenley had 7,979,747 shares of Common Stock and 2,520,005 shares of $1.40 Cumulative Convertible Preferred Stock ("$1.40 Preferred Stock") issued and outstanding and entitled to vote at the meeting. Each outstanding share of Common Stock is entitled to one vote and each outstanding share of $1.40 Preferred Stock to 1/10th of one vote, making an aggregate of 8,231,747.5 votes. Shares of Common Stock and $1.40 Preferred Stock will vote together and not as separate classes. Only holders of record of the Common Stock and $1.40 Preferred Stock as of the close of business on May 10, 1971 will be entitled to vote at the meeting. Schenley also has outstanding a class of Cumulative Preference Stock ("Preference Stock") which is not entitled to vote at the meeting.

At May 10, 1971, Glen Alden Corporation ("Glen Alden"), a Delaware corporation, was the record owner of 6,887,089 shares of Common Stock, constituting approximately 86% of the issued and outstanding shares of Common Stock of Schenley and approximately 84% of the voting power of the outstanding capital stock of Schenley. Glen Alden has advised Schenley that it intends to vote its shares for the election of directors, in favor of adoption of the Plan and Agreement of Reorganization and the Agreement of Merger, and in favor of approval of the designation of Haskins & Sells as the independent auditors of Schenley for the calendar year 1971. **Such votes by Glen Alden will be sufficient to elect all directors and to adopt each of the other matters to be voted upon at the meeting. Consequently, unless a holder of Schenley Common Stock or $1.40 Preferred Stock carefully follows the procedure for**

**exercise of his appraisal right (see "Right of Appraisal"), or unless the proposed reorganization is abandoned, his shares of Schenley Common Stock or $1.40 Preferred Stock will be converted into cash and Debentures of Glen Alden (See "Terms of the Reorganization" below).**

As of May 10, 1971, Rapid-American Corporation ("Rapid") owned approximately 63.7% of the outstanding Common Stock of Glen Alden, representing approximately 63.3% of the ordinary voting power of Glen Alden. Of the 13,061,716 shares of Common Stock of Glen Alden owned by Rapid, 7,000,000 shares are pledged to secure borrowings by Rapid from five banks, amounting to $12,600,000 at April 30, 1971. Under the agreements relating to such borrowings, an additional $14,400,000 may be borrowed by Rapid during 1971. In addition, the agreements require Rapid to maintain collateral having an aggregate market value of at least $40,000,000 as security for the borrowings, which requirements may be satisfied through the pledge of additional shares of Common Stock of Glen Alden or other collateral.

**Other Matters at Annual Meeting:**

The management knows of no matter other than those listed in the Notice of Annual Meeting to come before the meeting. However, if any other matter, not now known, properly comes before the meeting, the persons named in the enclosed form of proxy will vote said proxy in accordance with their best judgment on such matter.

**Solicitation of Proxies:**

Solicitation of proxies will be made by mail, telephone and otherwise. Schenley may utilize the services of some of its officers and regular employees (who will receive no compensation therefor in addition to their regular salaries) to solicit proxies personally. Schenley also intends to request banks and brokers who hold shares of its stock in their names or in their custody or in the names of others, to forward copies of the proxy material to those persons for whom they hold such shares and to request instructions for voting the proxies and will reimburse such banks and brokers for their regular out-of-pocket expenses incurred in connection therewith.

## I. PROPOSED REORGANIZATION

The Board of Directors of Schenley has approved a proposed reorganization pursuant to which Schenley will merge with Glen Alden Subsidiary, Inc. ("Subsidiary"), a wholly-owned subsidiary of Glen Alden formed solely for the purposes of the reorganization, and thereupon Glen Alden will become the owner of all outstanding equity securities of Schenley, except the Preference Stock. The Board of Directors has unanimously approved the proposed reorganization and the Plan and Agreement of Reorganization dated May 21, 1971 and the related Agreement of Merger, copies of which are attached hereto as Exhibits A and B, respectively, by which the reorganization will be effected. (The Plan and Agreement of Reorganization and the Agreement of Merger are hereinafter collectively called the "Plan of Reorganization".) **As noted above, Glen Alden caused the election of each of the directors of Schenley who voted to approve the Plan of Reorganization.**

Consummation of the reorganization requires approval of the Plan of Reorganization by the affirmative vote of a majority of the outstanding voting power of Schenley. As noted above, Glen Alden has advised Schenley that it intends to vote its shares of Schenley Common Stock in favor of adopting the Plan of Reorganization, and such votes by Glen Alden will be sufficient to adopt it. Unless terminated pursuant to the Plan of Reorganization (see "Right of Termination" below), it is expected that the reorganization will be consummated immediately after approval of Schenley's stockholders and appropriate tax rulings or opinions are obtained (see "Tax Consequences to Glen Alden and Schenley" below).

**Terms of the Reorganization:**

Upon the reorganization becoming effective, the shares of Schenley stock outstanding immediately prior thereto will be converted as follows:

(a) each outstanding share of Schenley Common Stock, except shares owned by Glen Alden, all of which will be cancelled, will be converted into $5.00 in cash and $30.00 principal amount of a

new 7½% Glen Alden Sinking Fund Subordinated Debenture due 1985 (the "Debentures"), the terms and conditions of which are more fully set forth under "Description of Debentures" elsewhere herein;

(b) each outstanding share of Schenley $1.40 Preferred Stock will be converted into $4.50 in cash and $27.00 principal amount of Debentures; and

(c) the outstanding shares of Schenley Preference Stock will remain outstanding and unchanged.

The Debentures are redeemable at any time at the option of Glen Alden.

**Certain Significant Aspects of the Proposed Reorganization:**

1. Holders of Schenley Common Stock and $1.40 Preferred Stock have the right, under Delaware law, to demand payment of the appraised value of their stock provided they comply with the requirements of the Delaware law. See "Right of Appraisal".

2. The proposed reorganization will result in Glen Alden becoming the owner of all of the equity securities of Schenley (except the Schenley Preference Stock) and will permit Glen Alden to transfer funds from Schenley to itself, including a substantial portion of the proceeds of the recent sale of Schenley's subsidiary, The Buckingham Corporation ("Buckingham"), subject only to applicable restrictions in Schenley's various loan agreements. See "History and Business of Schenley—Recent Developments". Subject to the consummation of the proposed reorganization and the said loan agreement restrictions, substantial funds of Schenley will be transferred to Glen Alden. These funds will initially be added to Glen Alden's general working capital and will provide a source for payment of current maturities of Glen Alden's long-term debt. The following table reflects certain comparative information as at December 31, 1970 with respect to (i) Glen Alden and its consolidated subsidiaries other than Schenley and its subsidiaries, (ii) Schenley on an historical basis, and (iii) Schenley, pro forma, after giving effect to the recent sale of Buckingham:

| | (In Millions) | | |
|---|---|---|---|
| | Glen Alden | Schenley | Schenley Pro Forma(1) |
| Cash, Certificates of Deposit and Marketable Securities | $39 | $72 | $162 |
| Net Quick Assets(2) | (65) | 20 | 111 |
| Current Maturities Long-Term Debt | 77(3) | 2 | — |

(1) For information with respect to the recent sale of Buckingham, see "History and Business of Schenley—Recent Developments" elsewhere herein.

(2) Consists of cash, certificates of deposit, marketable securities and receivables, less total current liabilities.

(3) Includes approximately $53,000,000 of notes payable to banks which had an original maturity date of June 30, 1970 which date was extended to February 1, 1971. On February 1, 1971, $30,000,000 of these notes were paid by Glen Alden, in part through application of the proceeds of the sale of its subsidiary RKO-Stanley Warner Theatres, Inc., and the maturity date of the remaining notes was further extended to August 1, 1971.

3. Glen Alden's ratio of earnings to fixed charges for 1970 was 1.72. If effect is given to the sale of Buckingham as if that sale had occurred on January 1, 1970, this ratio would have been 1.67. See "Glen Alden Corporation—Unaudited Pro Forma Statement of Consolidated Income". If effect is also given to the proposed reorganization as if it were effective on January 1, 1970, this ratio would have been 1.46.

4. After giving effect to the proposed reorganization, Glen Alden's total pro forma indebtedness as of December 31, 1970 was approximately $850,855,000 consisting of $217,943,000 of short-term debt, $436,326,000 of subordinated debt represented by the Debentures and Glen Alden's 6% Sinking Fund Subordinated Debentures due 1988 (the "6% Debentures"), and $196,586,000 of long-term debt. Substantially all of such indebtedness other than the Debentures and the 6% Debentures will be either "Senior Indebtedness", as defined in the Indenture relating to the Debentures, or indebtedness which constitutes a prior claim against certain subsidiaries of Glen Alden. The Indenture relating to the Debentures permits further indebtedness for money borrowed, without limitation in amount, which may

rank senior to the Debentures. If any such additional Senior Indebtedness is issued by Glen Alden, the market price of the Debentures may or may not be adversely affected. For further information with respect to the Debentures, see "Description of Debentures".

5. The consideration to be received by the holders of Schenley Common Stock and Schenley $1.40 Preferred Stock in the proposed reorganization is substantially less than that paid by Glen Alden in 1968 for the Schenley Common Stock currently owned by it. Glen Alden acquired 1,417,689 shares of the Schenley Common Stock owned by it from Lewis S. Rosenstiel, then Chairman of the Board of Schenley, and six other related sellers on March 20, 1968 for an aggregate purchase price of $75,610,080 ($53.33 per share). Glen Alden purchased an additional 110,000 shares of Schenley Common Stock on the New York Stock Exchange on April 26, 1968, at an aggregate cost of $5,851,208 (an average of $53.20 per share). The balance of shares of Schenley Common Stock owned by Glen Alden were acquired by Glen Alden pursuant to an Exchange Offer made in August 1968 by Glen Alden to all holders of Schenley Common Stock. In the Exchange Offer, Glen Alden offered $13 in cash and $100 in principal amount of the 6% Debentures for each 1½ shares of Schenley Common Stock. The shares of Schenley Common Stock tendered in the Exchange Offer included 916,950 shares tendered by Rapid, McCrory Corporation ("McCrory", a majority-owned subsidiary of Rapid) and Sol Kittay (then a director and Chairman of the Executive Committee of Glen Alden) and his son, Jeffrey Kittay.

In addition to the shares of Schenley stock owned by Glen Alden, officers and directors of Glen Alden, Rapid, McCrory and Schenley owned beneficially as of February 15, 1971 an aggregate of 15,053 shares of Schenley Common Stock.

6. Since August 1968, Glen Alden has owned more than 86% of the outstanding Schenley Common Stock and more than 80% of the total voting power of Schenley. Through such stock ownership, Glen Alden has elected all of the current directors of Schenley. The Board of Directors of Schenley currently consists of nine persons. Isidore A. Becker, Chairman of the Board and Chief Executive Officer of Schenley, is a director and executive officer of Glen Alden and of its parent, Rapid, and receives his total salary from Rapid. Paul A. Johnston, another Schenley director, is the President and Chief Operating Officer of Glen Alden and a director of Glen Alden and Rapid and receives his total salary from Glen Alden. Walter O. Heinze, a director of Schenley who is not standing for re-election, is an executive officer of two subsidiaries of Glen Alden and receives compensation from one of such subsidiaries. Three other directors, Messrs. David A. Chernow, Howard S. Feldman and Bernard Goldberg, are now, and were before Glen Alden's acquisition of Schenley Common Stock in 1968, executive officers and full-time employees of Schenley. Mr. Goldberg is also a Vice President of Glen Alden. A seventh director, Milo B. Hopkins, is currently employed as a consultant by Schenley. Prior to his retirement in 1966, Mr. Hopkins was Executive Vice President of Manufacturers Hanover Trust Company, which has banking relations with Glen Alden and Rapid as well as with Schenley. An eighth director, Albert N. Greenfield, was for several years until May 1970 a director of McCrory. The ninth director, Russell G. Smith, prior to his retirement was Executive Vice President of the Bank of America National Trust & Savings Association, which has banking relations with Schenley. See "ELECTION OF DIRECTORS" for further information as to remuneration of, and employment and consultant agreements with, various Schenley directors, and as to the ownership by Schenley directors of equity securities of Glen Alden and Rapid.

7. The law firm of Fried, Frank, Harris, Shriver & Jacobson, which has been general counsel to Glen Alden since early 1966, has also been general counsel to Schenley since October 1968. Said firm has represented and is representing Schenley in connection with, among other matters, (a) the antitrust suit by the United States Department of Justice against Schenley and Buckingham in which a consent decree was entered requiring Schenley to divest itself of Buckingham, and (b) Schenley's sale of Buckingham to Northwest Industries, Inc. (see "History and Business of Schenley—Recent Developments").

8. Messrs. Simpson Thacher & Bartlett were selected as special counsel to Schenley by the Board of Directors of Schenley on the recommendation of Messrs. Fried, Frank, Harris, Shriver & Jacobson,

general counsel to Glen Alden and Schenley. Prior to June 1967, Joel Dolkart, a member of the firm of Simpson Thacher & Bartlett, was a member of the firm of Fried, Frank, Harris, Shriver & Jacobson.

9. The investment banking firm of Allen & Company Incorporated, has acted as adviser to the Board of Directors of Schenley in connection with the proposed reorganization and has advised the Board that in their opinion the terms of the proposed reorganization are fair and equitable to the holders of Schenley Common Stock and $1.40 Preferred Stock. In rendering its opinion, said investment banking firm relied on information furnished by Glen Alden and Schenley and on published financial data, and did not make any independent factual investigation of the affairs of either Schenley or Glen Alden. Said firm will be paid $200,000 by Schenley. Allen & Company Incorporated acted as one of three dealer managers for Glen Alden in connection with its Exchange Offer to holders of Schenley Common Stock in August 1968. Said firm received fees aggregating $228,498 for its services as dealer manager and designated soliciting dealer and an additional $100,000 as compensation for its advice and assistance to Glen Alden in connection with the Exchange Offer. Since January 1, 1966 Allen & Company Incorporated and an affiliated partnership also received compensation aggregating approximately $1,200,000 for various other investment banking services performed for Rapid and its subsidiaries, which aforesaid figure includes net profits from the sale of securities on behalf of Rapid and certain of its subsidiaries.

**Tax Consequences to Schenley Stockholders:**

In the opinion of Messrs. Simpson Thacher & Bartlett, special counsel for Schenley, and Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel for Glen Alden, a holder of Schenley Common Stock or $1.40 Preferred Stock who exchanges his stock will recognize gain or loss for Federal income tax purposes to the extent of the difference between his basis for such shares and the sum of the cash and the fair market value of the Glen Alden Debentures which he receives. If the Schenley stock constitutes a capital asset in the hands of the particular shareholder, then the gain or loss will be capital gain or loss, and if the particular share exchanged has been held for more than six months, the gain or loss will be long-term capital gain or loss. Rulings confirming these conclusions have been requested of the Internal Revenue Service. Glen Alden intends to proceed with the proposed reorganization whether or not these rulings are obtained.

It is expected that the fair market value of the Debentures on the effective date of the proposed reorganization will be less than their face amount so that original issue discount will exist under the provisions of Section 1232 of the Internal Revenue Code of 1954. As a result, the amount of such original issue discount will be required to be taken into ordinary income by each holder of Debentures ratably each year over the period remaining to the maturity of the Debentures so long as such holder holds Debentures.

A holder of Schenley Common Stock or $1.40 Preferred Stock who elects to pursue his right of appraisal will recognize gain or loss for Federal income tax purposes to the extent of the difference between the basis of his stock and the amount received therefor. If the Schenley stock constitutes a capital asset in the hands of the particular shareholder, then the gain or loss will be capital gain or loss, and if the particular share disposed of has been held for more than six months on the effective date of the proposed reorganization, then the gain or loss will constitute long-term capital gain or loss.

**Tax Consequences to Glen Alden and Schenley:**

The Internal Revenue Service has been asked to rule that, with possible minor exceptions, no gain or loss will be recognized by Glen Alden, Schenley or Subsidiary as a result of the reorganization.

If the Internal Revenue Service does not so rule, then Glen Alden intends to proceed with the reorganization only if it receives an opinion of counsel satisfactory to Glen Alden that, with possible minor exceptions, no gain or loss will be recognized by Glen Alden, Schenley or Subsidiary as a result of the reorganization.

**Right of Termination:**

The proposed reorganization may be terminated, prior to its becoming effective (whether before or after approval by the stockholders of Schenley and Subsidiary), by mutual agreement of the Boards of Directors of Glen Alden, Subsidiary and Schenley. Reference is made to the Plan of Reorganization for certain other grounds for termination.

**Expenses of Reorganization:**

Glen Alden and Schenley will each pay its own expenses in connection with the proposed reorganization, including the fees and expenses of its counsel, advisers and accountants.

**Effective Date and Certificate Exchange:**

The reorganization will become effective at the time of the requisite filing of the Agreement of Merger in the State of Delaware (the "Effective Date").

As promptly as practicable thereafter, the stockholders of Schenley will be notified of the Effective Date of the merger, and holders of Schenley Common Stock and $1.40 Preferred Stock will be advised as to the procedure for the surrender of their certificates in exchange for the cash and principal amount of Debentures to which they are entitled. All holders of Schenley Common Stock and $1.40 Preferred Stock will be required to exchange their Schenley stock certificates in order to receive the cash and Debentures to which they are entitled and any interest theretofore payable on the Debentures. No interest will be paid or accrued on the cash payable upon surrender of the Schenley stock certificates or upon any interest theretofore payable on the Debentures.

On the Effective Date of the reorganization, the cash and Debentures which such stockholders will be entitled to receive as a result of the effectiveness of the reorganization will be deposited with various banks, for the account of the Exchange Agent and for the benefit of Schenley stockholders. After the expiration of 90 days from the Effective Date, the Exchange Agent will release from deposit any part of the cash not previously paid by the Exchange Agent to Schenley stockholders, and in addition, prior to the end of such 90-day period will release, upon Schenley's instruction, any cash deposited in respect of shares of Schenley stock, the holders of which have demanded payment from Schenley of the value of their stock under Delaware law (see "Right of Appraisal").

**Exchange Agent:**

Franklin National Bank, New York, N. Y., will act as the Exchange Agent for the exchange of Schenley Common Stock and $1.40 Preferred Stock certificates for the cash and Debentures to be delivered in connection with the proposed reorganization.

**Waivers and Amendments:**

The Plan of Reorganization may be amended or modified by a written instrument signed by the proper officers of the respective parties. The parties may exercise their right to waive conditions and to amend the Plan of Reorganization as to matters deemed by their Boards of Directors not to be of a substantial nature, such as reasonable extensions of time for the consummation of the transaction, the relaxation of requirements with respect to legal opinions, documentation and similar matters. If any change or amendment which is so deemed to be of a substantial nature should be necessary, the parties intend to give such notice to and to obtain such consent of their respective stockholders as time and circumstances may permit. Under no circumstance will the condition that the Debentures be listed on the New York Stock Exchange be waived. See "Listing" below.

**Right of Appraisal:**

Pursuant to Section 262 of the General Corporation Law of Delaware, any holder of Schenley Common Stock or $1.40 Preferred Stock who objects to the reorganization may elect to be paid the value of such stock on the Effective Date of the reorganization (exclusive of any element of value arising from the expectation or accomplishment of the reorganization), provided that he complies with the requirements of Section 262. The following statements under this caption in respect of Section 262 are qualified in their entirety by express reference to the full text of Section 262, which is attached as Exhibit C to this Proxy Statement.

**To be paid the value of his stock, the objecting stockholder must mail or deliver to Schenley written objection to the reorganization, which objection must be received by Schenley before the taking of the vote thereon, and such stockholder must not vote in favor of the reorganization. A vote in favor of the proposed reorganization will constitute a waiver of any previously filed objection to the reorganization. Failure to vote will not constitute such a waiver. The mere filing by a stockholder of a proxy directing a vote against the reorganization will not be treated by Schenley as written objection to the reorganization within the meaning of Section 262.**

Within 10 days after the Effective Date of the reorganization, Schenley will give written notice of the effectiveness of the reorganization to all holders of record of Schenley Common Stock and $1.40 Preferred Stock who have filed with Schenley written objection to the reorganization and who did not vote in favor of it. **The stockholder must, within 20 days after the mailing of such notice to him, demand in writing from Schenley the value of his Schenley stock.**

If within 30 days after the above-mentioned 20-day period, Schenley and the stockholder do not agree upon the value of his stock, either Schenley or the stockholder may, within four months after the expiration of said 30-day period, file a petition in the Delaware Court of Chancery demanding a determination of the value of his stock by an appraiser appointed by the court. The costs of the appraisal, including the fees and expenses of the appraiser, but excluding any fees for counsel or experts retained by any party, may be assessed against one or more parties to the proceedings as the Court may consider equitable. The Court may also, on application of any party, determine the amount of interest, if any, to be paid upon the value of the stock of the stockholders entitled thereto.

**If an objecting stockholder is not timely in taking any of the foregoing steps, his shares will be converted into cash and Debentures in accordance with the terms of the reorganization.**

Schenley has been advised by its special counsel that any cash paid to dissenting stockholders will result in the recognition of gain or loss to them for Federal income tax purposes.

Holders of Schenley Preference Stock will not be entitled to any right of appraisal under Delaware law since such shares are currently listed on the New York Stock Exchange and will be unchanged in the reorganization.

The Plan of Reorganization contains no provision with respect to the abandonment of the proposed reorganization in the event that the holders of any specified number of shares of Schenley stock file with Schenley written objection to the reorganization and do not vote in favor of it.

**Accounting Treatment:**

The proposed reorganization will be accounted for as a "purchase" transaction. Haskins & Sells, independent certified public accountants for Glen Alden and Schenley, has reviewed the foregoing accounting treatment and has approved it as being in accordance with generally accepted accounting principles.

**Listing:**

It is a condition of the proposed reorganization that the Debentures issuable thereunder will be listed, or approved for listing, on the New York Stock Exchange on the Effective Date.

**Compliance with Alcoholic Beverage Laws:**

The reorganization may require Schenley to file new or amended applications in connection with certain federal, state and other alcoholic beverage licenses now held by Schenley and may also require Glen Alden to make certain filings in connection therewith. Neither Schenley nor Glen Alden is aware of any fact which would prevent approval of such applications.

**F.T.C. Notification:**

Glen Alden and Schenley are subject to the reporting requirements of the Federal Trade Commission with respect to mergers between corporations of a certain size. Notification of the proposed reorganization has been given to the Federal Trade Commission. To date, no objection to the consummation of the proposed reorganization has been received from the Federal Trade Commission.

**Litigation In Respect of the Proposed Reorganization:**

On or about March 5, 1971, two actions were instituted by David J. Greene & Company and others, one in the Supreme Court of the State of New York and one in the Court of Chancery of the State of Delaware. Plaintiffs bring the actions derivatively on behalf of Schenley and representatively on behalf of all of Schenley's security holders other than Glen Alden. The defendants, in addition to Schenley, are Glen Alden, all of the directors of Schenley and one former director. The complaints allege that plaintiffs are stockholders of Schenley and, in essence, (a) that Glen Alden, by virtue of its stock interests in Schenley, dominates and controls Schenley, its officers and directors, some of whom are also directors and officers of Glen Alden and receive substantial compensation from Glen Alden; (b) that, based upon factors such as the expected market price of the Glen Alden debentures to be offered, the value of Schenley stock, Schenley's book value, its earnings, and the price-earnings ratio allegedly prevalent in the liquor industry, the proposed merger is grossly unfair to Schenley and its minority shareholders, and correspondingly beneficial to Glen Alden; (c) that defendants announced the proposed reorganization to depress the market value of Schenley's publicly held shares and to foreclose Schenley's minority stockholders from benefiting from the sale of Buckingham and the value of Schenley's bonded whiskey inventory; (d) that the approval by Schenley's directors of the proposed merger represents a gross breach of trust and of their fiduciary duties, and was given because said directors are economically beholden to Glen Alden; and (e) that the minority stockholders of Schenley will suffer irreparable injury by the merger. The complaints request that a temporary restraining order and preliminary and final injunctions be issued barring the defendants from taking further steps to effectuate the aforesaid merger plan, and that plaintiffs and their attorneys be allowed the costs and expenses of the actions, including reasonable attorneys' and experts' fees. The complaint in the Delaware action also requests that the defendants other than Schenley account for their alleged profits and for Schenley's alleged damages.

On or about March 5, 1971, an action was instituted in the Supreme Court, State of New York, County of New York by Isaac Fuchs, derivatively on behalf of Schenley and representatively on behalf of the stockholders of Schenley. The defendants are the same as in the *Greene* suits described above, and the complaint in essence makes substantially the same claims as in the *Greene* suits. In addition to the relief requested in the *Greene* suits, plaintiff requests that all defendants other than Schenley pay punitive damages and that if, before trial, the reorganization shall have been consummated, that it be set aside.

On or about March 1, 1971, an action was instituted in the United States District Court for the Central District of California by Philip Zerylnick, on his own behalf and on behalf of the holders of Schenley Common Stock other than Glen Alden and Rapid. The defendants are Glen Alden, Rapid, Schenley, and certain unnamed defendants. The complaint alleges that the plaintiff is a stockholder of Schenley and, in essence, that (a) the proposed reorganization was devised by Glen Alden, Rapid, and Schenley as part of a conspiracy to force the minority stockholders of Schenley to sell their shares below the true value thereof; (b) defendants announced the proposed reorganization for the purposes of stabilizing the market price of Schenley stock at $35 per share or less and of conveying to the public the misleading impression that said stock was worth no more than $35 per share; (c) although Schenley's book value and earnings per share have risen from the time of Glen Alden's prior tender offer to holders of Schenley Common Stock in 1968, the amount to be received by Schenley shareholders in the proposed reorganization has dropped in excess of 50% from the amount received in the prior tender offer; and (d) the corporate defendants have set up interlocking directorates which are working together in furtherance of the aforesaid plan to depress the market price of Schenley stock and to squeeze the minority stockholders of Schenley out of their position. Plaintiffs seek judgment for compensatory damages in the sum of $44,800,000, punitive damages in the sum of $90,000,000, an "accounting of the earnings and book value of all assets of each and every defendant", "reasonable attorneys' fees" in the sum of $10,000,000, and litigation costs.

On or about March 8, 1971, an action was instituted in the United States District Court for the Southern District of New York by Dorothy L. Cole, on behalf of all holders of Schenley $1.40 Preferred or Common Stock who purchased said stock on or after November 17, 1969. The defendants are Schenley, Glen Alden, Rapid, the directors of Schenley, one former director of Schenley, and Meshulam Riklis, Chairman of the Board of Glen Alden. The complaint alleges, in essence, (a) that the proposed reorganization is grossly inadequate and unfair to the minority stockholders of Schenley, in that Schenley Common Stock has a present fair value of not less than $55 per share and Schenley $1.40 Preferred Stock has a present fair value of not less than $50 per share, while in the proposed reorganization, each holder of Schenley Common Stock will receive no more than $27.50 per share, and each shareholder of Schenley $1.40 Preferred Stock will receive no more than $24.75 per share; (b) that the proposed reorganization will diminish the value of the investment of the minority stockholders of Schenley by at least 50%, to the gain of Glen Alden; (c) that the proposed reorganization will permit Glen Alden to appropriate the assets, business and goodwill of Schenley without adequate compensation to its minority shareholders, and constitutes a knowing and willful violation by the defendants of their fiduciary obligations; (d) that the defendants have entered into a scheme and plan, starting in early 1968, with the objective of appropriating for Glen Alden all of the assets, goodwill and business of Schenley at a price below their fair value, and that Glen Alden's prior tender offer to holders of Schenley Common Stock and Schenley's acquisition of all of the stock of Buckingham were steps in that plan; (e) that Schenley's proxy statement dated November 17, 1969, pursuant to which Schenley $1.40 Preferred Stock was originally issued, was false and misleading, in that it failed to disclose that defendants had already determined to cause the merger of Schenley with Glen Alden, to cause Glen Alden to acquire all of the outstanding shares of Schenley, and to consummate the merger on terms whereby Schenley $1.40 Preferred Stock would not be converted into a voting security of the surviving party to the merger; and (f) that the object of all the foregoing was to place Schenley's stockholders in a position where they would have no alternative other than to sell their stock to Glen Alden for an inadequate consideration. The complaint seeks an injunction against the defendants from taking any further steps to consummate the proposed reorganization, damages, costs, expenses, and attorneys' and accountants' fees.

On or about March 8, 1971, an action was instituted in the United States District Court for the Southern District of New York by Harry Walter Voege and Anna May Tunmore, trustees, on behalf of all holders of Schenley Common Stock other than Glen Alden and Glen Alden's officers and directors and related corporations. The defendants are Schenley, Glen Alden, all the directors of Schenley and certain of the directors of Glen Alden. The complaint alleges, in essence that (a) the present fair and reasonable value of Schenley Common Stock is no less than $54 per share, and the proposed sale of stock of Buckingham will improve Schenley's cash position to the extent of $12 per share of Schenley Common Stock; (b) the remaining stockholders of Schenley are third-party beneficiaries of the Stock Purchase Agreement entered into between Glen Alden and Lewis S. Rosenstiel in March of 1968 whereby Glen Alden agreed to make a tender offer to purchase all remaining outstanding shares of Schenley Common Stock on terms not less favorable than the terms of a proposed offer set forth in that agreement; (c) Glen Alden has admitted, in an affidavit used in another litigation, that the amount received by Schenley stockholders in a tender offer previously made by Glen Alden was equivalent to from $53.33½ to $56.66⅔ for each share of Schenley Common Stock, and that Schenley Common Stock should be valued at 47% over its book value and at 16 to 20 times earnings, and that Glen Alden is now estopped from contending that different valuation principles should be applied; (d) the proposed reorganization will unjustly enrich Glen Alden at the expense of and to the detriment of Schenley's minority stockholders in that it will permit Glen Alden to appropriate to itself the benefits of the proposed sale of Buckingham, and will permit it to acquire the shares of Schenley Common Stock held by Schenley's minority public stockholders at a price at least $26.50 per share less than the present value of said shares; (e) the minority stockholders of Schenley do not have an adequate remedy since they are allegedly not entitled to appraisal rights for their stock; and (f) there have been no conditions which would justify a lesser consideration to Schenley's shareholders presently than that received in the tender offer made by Glen Alden in 1968, particularly since Schenley's earnings and book value have increased since that time. The complaint seeks an injunction against the consummation of the proposed reorganization

under any terms which would provide the minority stockholders of Schenley with less than a realizable cash value of $54 per share, the cancellation and nullification of the proposed reorganization, and the setting aside of an amount equal to a consideration of $54 per share for each share of Schenley Common Stock, or, in the alternative, the payment of an amount of no less than $54 per share for each share of Schenley Common Stock, punitive damages, interest from the effective date of the proposed reorganization, and costs and expenses, including attorneys' and accountants' fees. Plaintiffs have moved for a preliminary injunction preventing the consummation of the proposed reorganization pending the outcome of the action. On or about March 30, 1971, plaintiffs served an amended and supplemental complaint in this action. In the amended and supplemental complaint, plaintiffs now claim to represent holders of Schenley's $1.40 Preferred Stock as well as holders of Schenley Common Stock and, in addition, allege, in essence, that on March 25, 1971, Schenley and Glen Alden announced revisions of the terms of the proposed reorganization, which revisions were the result of the institution of plaintiffs' action and the service of their motion for a temporary injunction, and which revisions increased the amount receivable by each holder of Schenley Common Stock from $26.60 to $28.10 per share and the amount receivable by each holder of Schenley $1.40 Preferred Stock from $23.94 to $25.29 per share. The amended and supplemental complaint alleges that the terms of the proposed reorganization, as revised, remain grossly unfair to Schenley's minority shareholders, and seeks, in addition to the relief previously sought, relief which would afford holders of Schenley's $1.40 Preferred Stock a consideration of at least $48.60 per share.

On or about April 8, 1971, another action was instituted by Harry Walter Voege and Anna May Tunmore, trustees, on behalf of all holders of Schenley Common Stock other than Glen Alden, and derivatively on behalf of Schenley. This action was instituted in the Court of Chancery of the State of Delaware and names, as defendants, Schenley, Glen Alden, all of the directors of Schenley and certain of the directors of Glen Alden. The complaint alleges, in essence, that Glen Alden formulated a plan to acquire the net assets of Schenley for its own benefit, that as part of this plan it made a tender offer in 1968 to holders of Schenley Common Stock and issued Glen Alden 6% debentures in connection therewith, that it then caused Schenley to purchase Glen Alden 6% debentures having a face value of approximately $20,000,000, and that, after the proposed reorganization, it intends to use these debentures purchased by Schenley to satisfy Sinking Fund requirements relating to the Glen Alden 6% debentures, all to Glen Alden's benefit in the amount of $20,000,000. The complaint claims that the alleged transaction constitutes a diversion and misapplication of Schenley's funds and assets, since it was intended from the inception that Glen Alden would never repay the debentures to Schenley, and that the transaction constitutes a dividend by Schenley to Glen Alden in the amount of $20,000,000, in which Schenley's minority shareholders are entitled to participate. The complaint seeks an accounting for the profits allegedly made by the defendants other than Schenley, and for all damages suffered by Schenley and its minority shareholders, and also demands that defendants pay to Schenley's minority shareholders a dividend of $2.50 for each share of Schenley Common Stock, over and above any consideration to be received by these shareholders in the proposed reorganization, as well as costs and disbursements, including counsel and accountants' fees.

On or about March 19, 1971, an action was instituted in the United States District Court for the Southern District of New York by Samuel Greenfield Fund, Inc., on behalf of all holders of Schenley common and preferred stock. The defendants are Schenley, Glen Alden, Rapid, the directors of Schenley, and one former director of Schenley. The complaint alleges, in essence (a) that the defendants have conspired together to eliminate the minority stockholders of Schenley and to defraud, deceive and mislead said stockholders, by means of a plan to merge Schenley into a subsidiary of Glen Alden and pay the minority stockholders of Schenley a grossly inadequate price for their stock; (b) that the board of directors of Schenley, which is dominated and controlled by Glen Alden and Rapid, fraudulently approved the plan of merger, without obtaining at the time of their initial approval any outside independent advice regarding the fairness of the plan, and falsely represented to the minority stockholders that the plan was fair and adequate to them; and (c) that Schenley common and preferred stock is worth far in excess of $50 per share, particularly since Glen Alden paid for its Schenley shares in 1968 in excess of $55 per share, and Schenley earned more per share in 1970 than in 1968. The complaint requests that a temporary restraining order and preliminary and final injunctions be issued barring the defendants from taking further steps

to effectuate the merger, that Schenley stockholders be compensated for their alleged losses, and for defendants' alleged profits, and that plaintiff and its attorneys be allowed the costs and expenses of this action, including reasonable attorneys' and experts' fees.

On or about April 6, 1971, an action was instituted in the United States District Court for the Southern District of New York by Harold Stiller and Mildred Stiller, on behalf of all holders of Schenley $1.40 Preferred Stock and Common Stock who purchased and held said stock on or after November 17, 1969. The defendants are Schenley, Glen Alden, Rapid and certain of the directors of Schenley and Glen Alden. The complaint alleges, in essence, that (a) the proposed reorganization is grossly inadequate and unfair to the minority shareholders of Schenley, in that Schenley Common Stock has a present fair value of not less than $55.00 per share and Schenley $1.40 Preferred Stock has a present value of not less than $50.00 per share, while in the proposed reorganization, each holder of Schenley Common Stock will receive no more than $27.50 per share and each holder of Schenley $1.40 Preferred Stock will receive no more than $24.75 per share; (b) the proposed reorganization will diminish by at least 50% the value of the investment of Schenley's minority stockholders, to the gain of Glen Alden, and will permit Glen Alden to knowingly and wilfully appropriate the assets, business and goodwill of Schenley without adequate compensation; (c) defendants conceived of a plan early in 1968 which had, as its main objective, the appropriation by Glen Alden of all of the shares, assets, goodwill and business of Schenley at a price below their fair value, and, as prior steps in this plan, Glen Alden acquired 88% of the Common Stock of Schenley, and caused Schenley to acquire the Common Stock of Buckingham; (d) at the time Schenley acquired the stock of Buckingham, it concealed from Schenley's minority shareholders the fact that it intended to force said shareholders to divest themselves of their shares for a grossly inadequate consideration; (e) Schenley's proxy statement dated November 17, 1969, pursuant to which the Schenley $1.40 Preferred Stock was originally issued, was false and misleading, in that it failed to disclose that defendants had already decided to cause the merger of Schenley with Glen Alden, and in that defendants intended that in such a merger, the Schenley $1.40 Preferred Stock would not be converted into a voting security of the surviving company. The complaint seeks temporary and permanent injunctions against consummation of the proposed reorganization, damages, costs, expenses and attorneys' and accountants' fees.

On or about April 15, 1971, another action was instituted by Harold Stiller and Mildred Stiller. This action was instituted in the Supreme Court of the State of New York, on behalf of the same persons as in the prior *Stiller* action, and names the same defendants as in that action. The allegations of the complaint and the relief requested are essentially the same as in the prior *Stiller* action, except that the complaint also alleges that the members of the class plaintiffs represent should be considered third-party beneficiaries of Glen Alden's contract with Lewis S. Rosenstiel in March 1968, whereby Glen Alden allegedly agreed to make a tender offer to purchase the remaining issued and outstanding shares of Schenley common stock on terms at least as favorable as the terms on which Glen Alden purchased Schenley stock from Mr. Rosenstiel. The complaint alleges that defendants have breached this undertaking by Glen Alden, and that plaintiffs and the class they represent have suffered damages as a result of this breach.

## CAPITALIZATION

The consolidated capitalization of Schenley and Glen Alden as of December 31, 1970 and as adjusted to reflect the sale of Buckingham and the proposed reorganization are as follows:

| Title of Class | Schenley | Glen Alden* | Glen Alden (adjusted to reflect the sale of Buckingham and the proposed reorganization) |
|---|---|---|---|
| Short-term debt: | | | |
| Notes payable to banks and commercial paper | $110,750,000 | $139,165,000 | $139,165,000 |
| Foreign bank loans | — | 1,949,910 | 1,949,910 |
| Current maturities of long-term debt | 2,000,000 | 78,828,331(a) | 76,828,331(a)(b) |
| | $112,750,000 | $219,943,241 | $217,943,241 |
| Long-term debt (less current maturities): | | | |
| Notes payable to banks, due in varying quarterly instalments to March 31, 1973 (interest at ⅜% above prime rate) | — | $ 18,750,000 | $ 18,750,000 |
| 7¼% notes payable to insurance company, due $2,520,000 annually from 1975 through 1983 and balance of $12,320,000 due in 1984(c) | — | 35,000,000 | 30,000,000(d) |
| 6½% notes payable to insurance companies, due March 1, 1979 | $ 71,500,000 | 71,500,000 | 71,500,000 |
| 3% notes payable to insurance companies, due November 1, 1975 (prepayments of $2,000,000 due annually until maturity) | 8,500,000 | 8,500,000 | — (b) |
| 6¼% notes, due in varying annual instalments to February 28, 1974 | — | 10,498,200 | 10,498,200 |
| 8¼% notes payable in deutsche marks to foreign banks, due $2,057,250 semi-annually from April 15, 1972 with balance due on October 15, 1973 | — | 16,458,000 | 16,458,000 |
| Note payable in deutsche marks to foreign bank, due $857,188 annually from August 31, 1971 with balance due August 31, 1974 (interest at 3¼% above Deutsche Bundesbank rate but not over 8½%) | — | 4,628,812 | 4,628,812 |
| 5¼% note payable, $335,000 due annually through 1977 and balance of $980,000 due on April 1, 1978 | — | 2,990,000 | 2,990,000 |
| 4⅞% mortgage and collateral trust sinking fund notes, $625,000 due each January 1st with balance due on March 1, 1979 | — | 5,125,000 | 5,125,000 |
| Note payable to foreign bank, $650,000 due semi-annually to December 29, 1974 (interest at 1% above New York prime rate) | — | 3,900,000 | 3,900,000 |
| 6½% mortgage and collateral note payable to insurance company, $75,000 (including interest) due monthly to October 15, 1984 | — | 5,535,594 | 5,535,594 |
| Non-interest bearing convertible debt, due in varying instalments to 1981(e) | — | 3,703,259 | 3,703,259 |
| 6½% secured note payable to insurance company, due in quarterly instalments (based on a percentage of certain sales) with balance due December 31, 1974 | — | 1,957,540 | 1,957,540 |
| 6% Sinking Fund subordinated debentures, due 1988(f) | — | 334,720,300 | 334,720,300 |
| 7½% Sinking Fund subordinated debentures, due 1985 | — | — | 101,606,280** |
| 7% subordinated convertible debentures, due July 31, 1973(g) | — | 10,000,000 | 10,000,000 |
| 20-year five per cent subordinated convertible debentures, series A, due September 30, 1986(h) | — | 814,000 | 814,000 |
| 3%-10⅝% sundry indebtedness consisting principally of mortgage and other notes due 1971 through 1986 | — | 10,725,732 | 10,725,732 |
| | $ 80,000,000 | $544,806,437 | $632,912,717 |
| Minority interest in subsidiaries | — | $ 55,791,074 | $ 5,858,581 |

* Includes Schenley as a consolidated subsidiary of Glen Alden.

** To be issued in the proposed reorganization.

| Title of Class | Schenley | Glen Alden | Glen Alden (adjusted to reflect the sale of Buckingham and the proposed reorganization) |
|---|---|---|---|
| **Shareholders' equity:** | | | |
| **Preferred stocks of Glen Alden, without par value:** | | | |
| $2.25 Senior Cumulative Convertible, authorized 724,405 shares, issued and outstanding 386,232 shares at stated value(i) | — | $ 386,232 | $ 386,232 |
| Class B Senior Cumulative Convertible ($3), authorized 2,200,000 shares, issued and outstanding 770,695 shares at stated value(j) | — | 770,695 | 770,695 |
| $3.15 Cumulative Convertible, authorized 1,300,000 shares, issued and outstanding 153,424 shares at stated value(k) | — | 5,125,175 | 5,125,175 |
| Class C (Contingent Preference), authorized 335,398 shares, issued 167,856 shares at stated value(l) | — | 5,993,396 | 5,993,396 |
| **Preference and preferred stock of Schenley:** | | | |
| Cumulative Preference Stock, par value $.35 per share, authorized 4,000,000 shares, issued 197,594 shares(m) | $ 69,158 | † | † |
| $1.40 Cumulative Convertible Preferred Stock, par value $1 per share, authorized 2,745,550 shares, issued 2,538,864 shares(n) | 2,538,864 | † | — |
| | 2,608,022 | 12,275,498 | 12,275,498 |

| Par Value | Shares Authorized | Shares Issued | | | |
|---|---|---|---|---|---|
| Common Stock of Glen Alden $1 | 36,000,000 | 21,407,238(o) | — | 21,407,238 | 21,407,238 |
| Common Stock of Schenley $ .93⅓ | 20,000,000 | 9,604,053(p) | 8,963,783 | † | — |
| Capital surplus | | | 62,404,668 | 129,932,051 | 129,932,051 |
| Retained earnings | | | 307,216,283 | 128,821,590 | 128,821,590 |
| Less—Treasury Stock, at cost: | | | | | |
| Glen Alden—931,540 shares of Common Stock and 149,214 shares of Class C (Contingent Preference) Stock | | | — | (24,874,771) | (24,874,771) |
| Schenley—1,612,276 shares of Common Stock, 486 shares of Cumulative Preference Stock and 3,100 shares of $1.40 Cumulative Convertible Preferred Stock | | | (34,797,467) | — | — |
| | | | $346,395,289 | $267,561,606 | $267,561,606 |

† The outstanding Schenley Cumulative Preference Stock (which will remain outstanding after the proposed reorganization) and the outstanding Schenley $1.40 Cumulative Convertible Preferred Stock and Schenley Common Stock not owned by Glen Alden (which will not remain outstanding after the proposed reorganization) are included in minority interest in subsidiaries, above.

(a) On February 1, 1971, $30,000,000 principal amount of certain notes payable to banks was paid and the maturity of the balance of $22,997,000 of such notes was extended to August 1, 1971.

(b) Reflects payment of $10,500,000 principal amount of Schenley 3% notes payable to insurance companies (including $2,000,000 current maturities) in connection with the sale of Buckingham.

(c) Issued in 1969 with detachable warrants, expiring in 1984, to purchase 700,000 shares of Common Stock of Glen Alden at $14.92 per share, subject to antidilution.

(d) Reflects prepayment of $5,000,000 principal amount of Glen Alden 7¼% notes payable to insurance company incident to obtaining consent to the sale of Buckingham and the proposed reorganization.

(e) Unpaid balances may be converted into common stock of Panacon Corporation, a subsidiary of Glen Alden, at the rate of one share of stock for each $10 of unpaid principal.

(f) Annual sinking fund payments begin in 1979 and continue through 1987. The outstanding balance is exclusive of $22,573,000 held by Schenley at December 31, 1970.

(g) Convertible into Common Stock of Glen Alden at $17 per share, subject to antidilution.

(h) Convertible into $3.15 Cumulative Convertible Preferred Stock of Glen Alden at $89.16 per share, subject to antidilution.

(i) Each share is convertible, subject to certain adjustments, into 3.5 shares of Common Stock of Glen Alden. Initial redemption value at December 31, 1970 is $20,277,180.

(j) Each share is convertible, subject to certain adjustments, into 7 shares of Common Stock of Glen Alden. Initial redemption value at December 31, 1970 is $82,464,365.

(k) Each share is convertible, subject to certain adjustments, into 7.65 shares of Common Stock of Glen Alden. Initial redemption value at December 31, 1970 is $16,876,640.

(l) Under certain circumstances, shares of Class C Stock may for a period of time be converted, subject to certain events, into 9 shares of Common Stock of Glen Alden and thereafter may be converted, subject to certain events, into 6.56 shares of Common Stock of Glen Alden. Initial redemption value at December 31, 1970 of the 18,642 shares of Class C Stock outstanding is $1,677,780.

(m) Each share is redeemable at $10 per share, an aggregate of $1,971,080 for the 197,108 shares outstanding on December 31, 1970.

(n) Each share is convertible into 9/10 of a share of Schenley Common Stock and is redeemable at $24 per share, an aggregate redemption value of $60,858,336 for the 2,535,764 shares outstanding on December 31, 1970. At said date 2,282,188 shares of Schenley Common Stock were reserved for such conversion right.

(o) Includes 13,061,716 shares of Glen Alden Common Stock owned by Rapid. Shares of Glen Alden Common Stock reserved for issuance at December 31, 1970 are as follows:

| | |
|---|---|
| Upon conversion of the: | |
| $2.25 Senior Cumulative Convertible Preferred Stock; see note (i) above | 1,351,812 |
| Class B Senior Cumulative Convertible ($3) Preferred Stock; see note (j) above | 5,394,865 |
| $3.15 Cumulative Convertible Preferred Stock; see note (k) above | 1,173,694 |
| Class C (Contingent Preference) Stock; see note (l) above | 167,778 |
| 7% subordinated convertible debentures, due July 31, 1973; see note (g) above | 588,235 |
| 5% subordinated convertible debentures, Series A, due 1986; see note (h) above | 69,845 |
| Upon exercise of: | |
| Common Stock Options, granted or which may be granted | 849,120 |
| Class B Senior Stock Options | 426,972 |
| $3.15 Preferred Stock Options | 5,852 |
| Common Stock Purchase Warrants; see note (c) above | 700,000 |
| Upon allocation under stock bonus plans | 30,000 |
| | 10,758,173 |

(p) Includes 6,887,089 shares of Schenley Common Stock owned by Glen Alden.

(q) The aggregate of long-term notes and debentures maturing during the five years ending December 31, 1975, and as adjusted to reflect the sale of Buckingham, and the proposed reorganization is as follows:

| | (In Thousands) | |
|---|---|---|
| | Long-Term Debt Maturing | Adjusted to reflect the sale of Buckingham and the proposed reorganization |
| Years ending December 31: | | |
| 1971 | $78,828 | $76,828 |
| 1972 | 35,410 | 36,966 |
| 1973 | 37,514 | 39,070 |
| 1974 | 10,818 | 12,374 |
| 1975 | 8,343 | 9,399 |

See Note J to Financial Statements of Glen Alden and Note 12 to Financial Statements of Schenley for information with respect to lease commitments at December 31, 1970.

## COMPARATIVE DATA

The following compares Schenley dividends, pro forma annual interest on Debentures, per share redemption amount of $1.40 Preferred Stock, book values and earnings per share. Also presented are the adjusted amounts for Schenley book value and earnings per share giving effect to sale of The Buckingham Corporation as described under "History and Business of Schenley—Recent Developments" elsewhere herein. Information is also given for 9/10 of a share of Schenley Common Stock, the amount arising upon assumed conversion of the $1.40 Preferred Stock. Comparative data should be read in conjunction with the historical financial statements of Schenley and Glen Alden, and with the unaudited pro forma financial statements and their related notes, all included elsewhere herein.

**Dividends:**

| | |
|---|---|
| Per share of Schenley Common Stock ($.35 quarterly) | $1.40 |
| Per 9/10th of a share of Schenley Common Stock | $1.26 |
| Per share of Schenley $1.40 Preferred Stock ($.35 quarterly) | $1.40 |

**Pro forma annual interest on Debentures:**

| | |
|---|---|
| $30.00 Principal Amount | $2.25 |
| $27.00 Principal Amount | $2.02½ |

(In addition Schenley Common Stockholders will have the use of the cash payment of $5.00 per share, and the Schenley $1.40 Preferred Stockholders will have the use of the cash payment of $4.50 per share.)

Effect has not been given to the individual Federal income tax consequences to Schenley Common Stockholders or $1.40 Preferred Stockholders. See "Tax Consequences to Schenley Stockholders" elsewhere herein.

| | December 31, 1970 Historical | Adjusted For the Sale of The Buckingham Corporation |
|---|---|---|
| **Redemption amount and book values:** | | |
| Redemption amount per share of $1.40 Preferred Stock | $24.00 | $24.00 |
| Book value per share of Schenley Common Stock | $35.48 | $44.38 |
| Diluted book value per share of Schenley Common Stock (assuming full conversion of $1.40 Preferred Stock) | $33.52 | $40.44 |
| 9/10th of the diluted book value per share of Schenley Common Stock | $30.17 | $36.40 |

| | Year Ended August 31, | | | Four Months Ended December 31, | Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1968 | 1969 | 1970 |
| **Earnings:** | | | | | | |
| Schenley—Historical: | | | | | | |
| Primary net income per share of Common Stock | $2.59 | $2.94* | $2.24 | $ .47 | $2.78 | $3.01 |
| Diluted net income per share of Common Stock | $2.26 | $2.53* | $2.04 | ** | $2.45 | $2.64 |
| 9/10th of the diluted net income per share of Common Stock | $2.03 | $2.28 | $1.84 | ** | $2.21 | $2.38 |
| Schenley—Adjusted for the sale of The Buckingham Corporation: | | | | | | |
| Primary earnings per share of common stock: | | | | | | |
| Income before extraordinary gain | | | | | | $2.42 |
| Extraordinary gain | | | | | | 8.99 |
| Net income | | | | | | $11.41 |
| Diluted earnings per share of common stock: | | | | | | |
| Income before extraordinary gain | | | | | | $2.18 |
| Extraordinary gain | | | | | | 6.92 |
| Net income | | | | | | $9.10 |
| 9/10th of the diluted earnings per share of common stock: | | | | | | |
| Income before extraordinary gain | | | | | | $1.96 |
| Extraordinary gain | | | | | | 6.23 |
| Net income | | | | | | $8.19 |

* 1967 includes extraordinary item representing primary earnings of $.21 per share of Common Stock and diluted earnings of $.16 per share of Common Stock.

** Antidilutive.

## MARKET PRICES OF SCHENLEY SECURITIES

The following table sets forth the high and low and recent closing prices on the New York Stock Exchange of Schenley Common Stock, $1.40 Preferred Stock from December 16, 1969, and Preference Stock. The Common Stock prices have been adjusted to give effect to the 3 for 2 stock split in March 1968.

| | Per Share of | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | $1.40 Preferred Stock* | | Preference Stock | |
| | High | Low | High | Low | High | Low |
| Calendar Year: | | | | | | |
| 1965 | $26⅝ | $14⅞ | | | $11 | $10 |
| 1966 | 29⅜ | 16⅝ | | | 11¼ | 7¾ |
| 1967 | 46¼ | 20½ | | | 11⅞ | 8 |
| 1968 | 57 | 32¼ | | | 12 | 8¼ |
| 1969: | | | | | | |
| 1st Quarter | 44¾ | 35 | | | 9⅞ | 8¾ |
| 2nd Quarter | 34 | 27¼ | | | 9¼ | 8½ |
| 3rd Quarter | 29¾ | 22 | | | 8¾ | 7⅝ |
| 4th Quarter | 26½ | 20¾ | $21¼ | $18¼ | 8¼ | 6 |
| 1970: | | | | | | |
| 1st Quarter | 24⅞ | 20⅛ | 22 | 18 | 7¾ | 6¼ |
| 2nd Quarter | 25 | 19¼ | 22¼ | 17¼ | 7¾ | 6 |
| 3rd Quarter | 27 | 20¼ | 24½ | 17½ | 7⅛ | 6⅝ |
| 4th Quarter | 28 | 23⅝ | 25 | 21¼ | 7¼ | 6 |
| 1971: | | | | | | |
| January | 29 | 25 | 26¼ | 23¼ | 8 | 7¼ |
| February | 31½ | 25⅞ | 28½ | 23¾ | 8 | 7¾ |
| March | 30 | 26½ | 27¼ | 23⅞ | 7⅞ | 7¼ |
| April | 29¾ | 27½ | 26½ | 24¾ | 7⅞ | 7½ |
| May—through the 20th | 28⅜ | 27 | 25⅝ | 24 | 7¾ | 7½ |
| Closing price May 20 | $27¾ | | $24½ | | $7⅝ | |

* From December 16, 1969.

The proposed reorganization was announced on February 25, 1971. The closing prices on the New York Stock Exchange on February 24, 1971 were $29¼ per share of Schenley Common Stock, $26⅞ per share of $1.40 Preferred Stock and $7¾ per share of Preference Stock. The closing prices on the New York Stock Exchange on February 25, 1971 were $27½ per share of Schenley Common Stock and $25 per share of $1.40 Preferred Stock. On that date the Preference Stock was not traded on the New York Stock Exchange, and the closing Bid and Asked prices per share were $7½ and $8, respectively.

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## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED INCOME

The following statement of consolidated income of Glen Alden Corporation and subsidiaries for the five years ended December 31, 1970 has been prepared to include Stanley Warner Corporation and subsidiary companies, The B.V.D. Company, Inc. and consolidated subsidiaries and The Philip Carey Manufacturing Company and subsidiary companies, all acquired during 1967 in transactions accounted for as poolings of interests, Schenley Industries, Inc. since September 1, 1968, and Panacon Corporation since April 1, 1970, as more fully explained in Note 1. This statement has been examined by Haskins & Sells, independent certified public accountants, as stated in their opinion, which is based in part upon the reports of other independent public accountants included elsewhere herein. The statement should be read in conjunction with the financial statements of Glen Alden and related notes appearing elsewhere herein.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 |
| REVENUES: | | | | | |
| Net sales | $422,817,764 | $424,348,430 | $702,922,917 | $1,191,777,991 | $1,271,395,464 |
| Theatre operating revenues* | 46,268,784 | 42,967,578 | 43,381,982 | 37,461,347 | 40,566,274 |
| Other—net | 3,815,077 | 3,080,957 | 4,212,123 | 4,658,712 | 4,115,094 |
| Total revenues | 472,901,625 | 470,396,965 | 750,517,022 | 1,233,898,050 | 1,316,076,832 |
| COSTS AND EXPENSES: | | | | | |
| Cost of sales | 285,784,761 | 287,374,027 | 493,660,688 | 875,710,017 | 933,478,285 |
| Theatre operating expenses* | 31,787,840 | 30,538,532 | 33,870,722 | 29,082,114 | 32,800,950 |
| Advertising, selling, general and administrative expenses | 104,448,403 | 108,277,043 | 152,450,721 | 213,736,298 | 228,821,732 |
| Depreciation and amortization | 10,846,740 | 10,955,498 | 11,174,243 | 14,325,076 | 14,490,044 |
| Interest and debt expense | 6,746,657 | 6,785,528 | 26,225,917 | 56,685,996 | 57,032,873 |
| Operating (income) loss of discontinued and sold operations (Note 1) | (837,621) | (1,293,865) | (923,282) | 2,069,050 | — |
| Total costs and expenses | 438,776,780 | 442,636,763 | 716,459,009 | 1,191,608,551 | 1,266,623,884 |
| INCOME BEFORE INCOME TAXES AND RELATED CHARGE | 34,124,845 | 27,760,202 | 34,058,013 | 42,289,499 | 49,452,948 |
| INCOME TAXES AND RELATED CHARGE (Note 2) | 13,356,605 | 10,871,119 | 10,759,593 | 18,459,257 | 20,781,657 |
| INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS | 20,768,240 | 16,889,083 | 23,298,420 | 23,830,242 | 28,671,291 |
| MINORITY INTEREST (Note 1) | 3,372,173 | 3,063,749 | 641,833 | 3,092,681 | 4,143,838 |
| INCOME BEFORE EXTRAORDINARY ITEMS | 17,396,067 | 13,825,334 | 22,656,587 | 20,737,561 | 24,527,453 |
| EXTRAORDINARY ITEMS (Note 3) | 1,217,209 | 3,786,118 | 865,767 | 1,030,299 | (2,267,406) |
| NET INCOME | 18,613,276 | 17,611,452 | 23,522,354 | 21,767,860 | 22,260,047 |
| PREFERRED DIVIDEND REQUIREMENTS (Note 4) | 9,237,480 | 9,478,164 | 5,266,921 | 3,906,702 | 3,706,968 |
| NET INCOME APPLICABLE TO COMMON STOCK | $ 9,375,796 | $ 8,133,288 | $ 18,255,433 | $ 17,861,158 | $ 18,553,079 |
| Shares Used for Computation of Earnings Per Common Share (Note 4): | | | | | |
| Primary | 7,409,943 | 7,672,882 | 15,124,113 | 19,654,059 | 20,599,993 |
| Fully Diluted | 28,768,482 | 29,329,002 | 29,874,024 | 29,268,810 | 29,313,879 |
| Earnings per Common Share (Note 4): | | | | | |
| Primary: | | | | | |
| Income before extraordinary items (after preferred dividend requirements) | $1.10 | $ .57 | $1.14 | $ .86 | $1.01 |
| Extraordinary items | .17 | .49 | .06 | .05 | (.11) |
| Net income | $1.27 | $1.06 | $1.20 | $ .91 | $ .90 |
| Fully Diluted: | | | | | |
| Income before extraordinary items | $ .61 | $ .47 | $ .74 | $ .54 | $ .66 |
| Extraordinary items | .04 | .13 | .03 | .03 | (.08) |
| Net income | $ .65 | $ .60 | $ .77 | $ .57 | $ .58 |
| Ratio of earnings to fixed charges (Note 5) | 4.17 | 3.59 | 2.05 | 1.62 | 1.72 |
| Cash dividends per Common Share | $ .65 | $ .525 | $ .175 | | |

* See Note M to Glen Alden financial statements included elsewhere herein.

See Notes to Statement of Consolidated Income

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO STATEMENT OF CONSOLIDATED INCOME

1. PRINCIPLES OF CONSOLIDATION.

The accompanying statement of consolidated income includes the operating results of Glen Alden and all subsidiaries except Seager Evans & Co., Ltd., a 75% owned subsidiary in the United Kingdom, and certain other foreign subsidiaries whose assets and operations are not significant. Glen Alden includes in consolidated income its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager Evans.

During the year 1967, Glen Alden acquired The B.V.D. Company, Inc., The Philip Carey Manufacturing Company and Stanley Warner Corporation. These acquisitions, except for purchased interests in Philip Carey and Stanley Warner which create substantially all of the minority interest shown in the accompanying statement of consolidated income through December 31, 1967, have been accounted for as poolings of interests and retroactive effect has been given to these transactions in the statement of consolidated income. Results of operations of other subsidiaries acquired during the five years ended December 31, 1970 and accounted for as poolings of interests have been reflected from January 1, 1966, with minor exceptions which would not materially affect net income.

The accompanying statement of consolidated income for the year 1966 includes Glen Alden and Philip Carey for the year ended December 31, 1966, B.V.D. for the year ended April 1, 1967 and Stanley Warner for the year ended August 27, 1966. The 1967 statement of consolidated income includes Glen Alden and Philip Carey for the year ended December 31, 1967, B.V.D. for the nine months ended December 31, 1967 (retail subsidiaries for the eleven months ended December 31, 1967) and Stanley Warner for the year ended August 26, 1967. The results of operations of Stanley Warner and subsidiaries for the period August 27, 1967 through December 31, 1967 ($2,494,577) are not included in the 1967 statement of consolidated income but have been credited directly to retained earnings.

During 1968, Glen Alden purchased approximately 88% of the outstanding common stock of Schenley Industries, Inc. The 1968 statement of consolidated income includes Schenley for the four months ended December 31, 1968. During December 1969, BHM Industries, Inc., a majority owned subsidiary of Schenley, was merged into Schenley in a pooling of interests, and retroactive effect has been given to this transaction. During April 1970, Philip Carey was merged into Briggs Manufacturing Company (48% of its common stock was then owned by Glen Alden) and Briggs thereupon changed its name to Panacon Corporation. As a result of the merger, Glen Alden owned approximately 88% of the outstanding stock of Panacon. Results of operations of certain other subsidiaries acquired during the five years ended December 31, 1970 and accounted for as purchases have been included from respective dates of acquisition; such results of operations are not substantial in relationship to the consolidated revenues and net income.

International Latex & Chemical Corporation and theatre properties in California, Texas, and Tennessee were sold in 1968; the television station WAST was sold in 1969. The excess of net proceeds over book value resulting from such transactions amounted to approximately $23,000,000 and was credited to "Other Assets—Intangibles". Certain apparel operations were liquidated during the four years ended December 31, 1970. Operating income of discontinued and sold operations is as follows:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 |
| Net sales and theatre operating revenues | $75,188,861 | $67,393,577 | $37,401,760 | $15,107,123 |
| Cost of sales and theatre operating expenses, etc. | (58,288,361) | (51,912,077) | (27,924,535) | (14,171,320) |
| Advertising, selling, general and administrative expenses | (16,062,879) | (14,187,635) | (8,553,843) | (3,004,853) |
| Operating income (loss) of discontinued and sold operations | $ 837,621 | $ 1,293,865 | $ 923,282 | $(2,069,050) |

Corporate general and administrative expenses have been allocated to the several divisions and subsidiaries included in continuing and discontinued operations based on management estimates determined by use of various operational factors.

The net sales and net income of the foreign subsidiaries consolidated are as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 |
| Net sales | $52,796,601 | $56,043,787 | $57,262,307 | $72,085,206 | $78,409,918 |
| Net income | 3,229,174 | 2,737,828 | 5,947,356 | 8,383,834 | 9,374,344 |

The accounts of these subsidiaries stated in foreign currencies have been translated at appropriate exchange rates, and gains or losses, which have not been material, resulting therefrom have been reflected in income.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME—(Continued)

2. INCOME TAXES AND RELATED CHARGE.

Income taxes and related charge in the applicable periods were as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 |
| Federal income taxes: | | | | | |
| Current | $ 6,416,316 | $ 7,679,194 | $ 3,528,965 | $10,047,620 | $10,569,140 |
| Deferred | 1,231,040 | (191,398) | 1,705,155 | 1,907,023 | 583,016 |
| Foreign income taxes | 3,201,195 | 3,117,823 | 4,671,578 | 6,335,835 | 8,353,953 |
| Amount equivalent to reduction in Federal and foreign income taxes arising from utilization of operating loss carry-overs | 2,508,054 | 265,500 | 853,895 | 168,779 | 1,275,548 |
| Total income taxes and related charge | $13,356,605 | $10,871,119 | $10,759,593 | $18,459,257 | $20,781,657 |

The above includes, in each period, a charge which represents an estimate of the reduction in Federal and foreign income taxes arising from utilization of operating loss carryovers. Extraordinary items include the corresponding credit. Capital loss carryovers for tax purposes have negated the tax effects of certain extraordinary items.

At December 31, 1970, a subsidiary has operating loss carryovers of approximately $13,800,000 which may be applied against its future earnings. The loss carryovers expire in: 1971—$5,100,000; 1972—$7,100,000; and 1973—$1,600,000.

The statement of consolidated income includes the operating results of certain subsidiaries engaged in operations in Puerto Rico. These subsidiaries were granted exemptions, with certain reservations, from Commonwealth of Puerto Rico income taxes covering periods of ten to seventeen years, expiring 1970 to about 1986. If the exemptions had not been granted, the provision for income taxes in the accompanying statement would have been greater by approximately: 1966—$1,813,000; 1967—$1,170,000; 1968—$2,340,000; 1969—$1,397,000; and 1970—$1,454,000.

Deferred income taxes represent tax effects of items reported for tax purposes in periods different than for book purposes. Such items include provisions for depreciation, amortization, deferred compensation, warranties and pensions.

Investment tax credits were applied as reductions of Federal income tax provisions as follows: 1966—$630,000; 1967—$810,000; 1968—$2,122,000; 1969—$940,000; and 1970—$464,000.

The Internal Revenue Service has proposed adjustments to Glen Alden's consolidated taxable income for years prior to 1966 which would result in additional tax assessments of approximately $1,800,000. Glen Alden intends to protest certain of these proposed adjustments and, in the opinion of management and tax counsel, tax reserves provided therefor are adequate to cover any deficiencies ultimately assessed for those years as well as derivative effects arising therefrom in subsequent years. The consolidated returns of Glen Alden for 1966 through 1968 and the returns of certain subsidiaries for pre-acquisition periods are currently being examined and, in the opinion of management, issues raised to date will not result in liability in excess of reserves provided.

3. EXTRAORDINARY ITEMS.

Extraordinary credits (charges) in the applicable periods were as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 |
| Profit on sale of common stock of Schenley Industries, Inc. (a) | — | $2,068,990 | $234,734 | — | — |
| Provision for revaluation of investment in common stock of Briggs Manufacturing Company | $ (750,000) | — | — | — | — |
| Equity in net profit (loss) on consummated and anticipated dispositions of marginal theatres, trademarks and other assets, net of applicable Federal income tax effects (1966—$1,656,765; 1967—$80,724; 1968—$35,725; 1969—$195,352; and 1970—$(3,934,263)) | (691,907) | 1,271,809 | (222,862) | $ 861,520 | $(3,542,954) |
| Amount equivalent to reduction in Federal and foreign income taxes arising from utilization of operating loss carryovers | 2,508,054 | 265,500 | 853,895 | 168,779 | 1,275,548 |
| Sundry—net | 151,062 | 179,819 | — | — | — |
| Extraordinary items—net credit (charge) | $1,217,209 | $3,786,118 | $865,767 | $1,030,299 | $(2,267,406) |

(a) Federal income tax effect negated by the utilization in 1967 of capital-loss carryovers; net of applicable Federal income tax effect of $263,000 in 1968.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME—(Concluded)

4. EARNINGS PER COMMON SHARE.

Preferred dividend requirements for the two years ended December 31, 1967 have been computed on the average number of preferred shares considered to be outstanding during each period, after giving effect to pooling of interest transactions.

Primary earnings per common share are based on the weighted average number of common shares outstanding during each year and give effect to the assumed conversion of Class C Stock outstanding into common stock.

Fully diluted earnings per share give effect to the assumed conversion of dilutive convertible securities into common stock and to the exercise of dilutive stock options and warrants with proceeds therefrom applied to the purchase of common treasury stock. Adjustments to net income (principally dilution of earnings of certain subsidiaries in 1968, 1969 and 1970) for calculation of fully diluted earnings per share are as follows: 1966—$94,900; 1967—$43,212; 1968—$(557,062); 1969—$(4,960,524); and 1970—$(5,142,010).

5. RATIO OF EARNINGS TO FIXED CHARGES.

"Earnings" represent the aggregate of income before Federal and foreign income taxes, minority interest, extraordinary items and fixed charges after elimination of undistributed income of unconsolidated subsidiaries. "Fixed charges" comprise interest and debt expense, preferred dividends of consolidated subsidiaries and 33⅓% of rental expense. The ratio of earnings to fixed charges for the year ended December 31, 1970 after giving effect to the sale of Buckingham and the proposed reorganization as if such transactions were effective on January 1, 1970, would be 1.46.

6. RECONCILIATIONS OF TOTAL REVENUES AND NET INCOME PREVIOUSLY REPORTED TO GLEN ALDEN SHAREHOLDERS AND RETROACTIVE ADJUSTMENTS NECESSARY TO REFLECT POOLINGS OF INTERESTS AND SALES OF BUSINESSES ARE AS FOLLOWS:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 |
| | (In Thousands) | | | |
| Total revenues, as previously reported | $ 56,279 | $537,790 | $787,919 | $1,249,005 |
| Add (Deduct) revenues of: | | | | |
| Companies acquired in poolings of interests: | | | | |
| Philip Carey | 81,006 | | | |
| B. V. D. | 186,167 | | | |
| Stanley Warner | 224,638 | | | |
| Businesses sold and discontinued | (75,188) | (67,393) | (37,402) | (15,107) |
| Total revenues, per accompanying statement of consolidated income | $472,902 | $470,397 | $750,517 | $1,233,898 |
| Net income, as previously reported | $ 6,464 | | $ 22,291 | |
| Add—Net income of companies acquired in poolings of interests, net of purchased interests: | | | | |
| Philip Carey | 2,068 | | | |
| B. V. D. | 5,216 | | | |
| Stanley Warner | 4,865 | | | |
| BHM Industries (See Note 1) | | | 1,231 | |
| Net income, per accompanying statement of consolidated income | $ 18,613 | | $ 23,522 | |

In the opinion of the management of Glen Alden, the following unaudited figures for the three months ended March 31, 1970 and 1971 include all adjustments, which include only normal recurring accruals, necessary for a fair presentation thereof.

| | (Unaudited) Three Months Ended March 31, | |
|---|---|---|
| | 1970 | 1971 |
| Total revenues | $281,500,000 | $294,572,000 |
| Income before extraordinary items | $ 2,809,000 | $ 3,419,000 |
| Extraordinary items | (211,000) | — |
| Net income | 2,598,000 | 3,419,000 |
| Preferred dividend requirement | 929,000 | 916,000 |
| Net income applicable to common stock | $ 1,669,000 | $ 2,503,000 |
| Earnings per common share: | | |
| Primary (after preferred dividend requirements): | | |
| Income before extraordinary items | $.09 | $.12 |
| Net income | $.08 | $.12 |
| Fully Diluted: | | |
| Income before extraordinary items | $.04 | $.07 |
| Net income | $.03 | $.07 |

The operating results for the three months ended March 31, 1970 include the operations of RKO-Stanley Warner Theatres, Inc. a wholly-owned subsidiary of Glen Alden, sold on January 28, 1971. For additional information see Note M to the Glen Alden Financial Statements elsewhere herein. Such theatre operations accounted for approximately 3.6% of Glen Alden's total revenues and less than 2% of its net income for the three months ended March 31, 1970. No theatre operations are included in the results for the three months ended March 31, 1971.

Extraordinary items for the three months ended March 31, 1970 consisted of losses on the disposition of marginal theatres (net of applicable federal income taxes of $175,000). Extraordinary items for the three months ended March 31, 1971 consisted of a credit of $1,311,000 for gains on security transactions (net of applicable taxes of $274,000), and a charge of $1,311,000 representing Glen Alden's equity in a subsidiary's provision for approximate decline in market quotation value of an investment in shares of I.O.S., Ltd. (for additional information see page 24).

Because certain of Glen Alden's businesses are seasonal in character, the operating results for the three months ended March 31, 1970 and 1971 are not proportionately indicative of operating results which may normally be expected for the full fiscal year.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED INCOME (Note 1)

The following statement of consolidated income of Schenley and its subsidiaries for the four months and two years ended December 31, 1970 has been examined by Haskins & Sells, and for the three years ended August 31, 1968 has been examined by Arthur Andersen & Co., independent public accountants, whose reports are based in part on the reports of other auditors, as set forth in their reports included elsewhere herein. This statement should be read in conjunction with the financial statements of Schenley and related notes appearing elsewhere herein.

| | Year Ended August 31, | | | Four Months Ended December 31, | Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1968 | 1969 | 1970 |
| Revenue: | | | | | | |
| Net sales (Note a) | $477,873,230 | $517,996,185 | $550,347,767 | $188,932,596 | $643,075,213 | $669,337,567 |
| Other income—net (Note 1) | 2,921,211 | 3,186,272 | 2,320,258 | 1,640,223 | 3,152,946 | 2,483,716 |
| | 480,794,441 | 521,182,457 | 552,668,025 | 190,572,819 | 646,228,159 | 671,821,283 |
| Income deductions: | | | | | | |
| Cost of goods sold (Notes a and 2) | 372,321,531 | 403,930,555 | 427,537,354 | 150,240,185 | 504,717,779 | 525,352,849 |
| Selling, advertising and administrative expenses | 59,544,392 | 64,775,393 | 75,906,600 | 27,290,607 | 77,232,923 | 82,223,581 |
| Interest charges—net | 8,874,944 | 9,581,945 | 11,557,657 | 4,588,477 | 14,144,571 | 12,912,274 |
| | 440,740,867 | 478,287,893 | 515,001,611 | 182,119,269 | 596,095,273 | 620,488,704 |
| | 40,053,574 | 42,894,564 | 37,666,414 | 8,453,550 | 50,132,886 | 51,332,579 |
| Provision for Federal taxes on income (Notes b, 4 and 11) | 16,630,000 | 18,330,000 | 16,650,000 | 3,530,000 | 24,870,000 | 24,150,000 |
| Income before extraordinary item | 23,423,574 | 24,564,564 | 21,016,414 | 4,923,550 | 25,262,886 | 27,182,579 |
| Extraordinary item (Note c) | — | 1,642,062 | — | — | — | — |
| Net income (Note e) | 23,423,574 | 26,206,626 | 21,016,414 | 4,923,550 | 25,262,886 | 27,182,579 |
| Preference and $1.40 cumulative convertible preferred stock dividend requirements | 3,933,706 | 3,780,949 | 3,731,234 | 1,202,449 | 3,555,270 | 3,359,054 |
| Net income applicable to common stock | $ 19,489,868 | $ 22,425,677 | $ 17,285,180 | $ 3,721,101 | $ 21,707,616 | $ 23,823,525 |
| Average common shares outstanding | 7,518,146 | 7,631,628 | 7,715,844 | 7,788,843 | 7,803,878 | 7,912,414 |
| Average common shares outstanding, assuming conversion of all employee stock options, preference stock and $1.40 cumulative convertible preferred stock | 10,354,571 | 10,377,537 | 10,322,913 | 10,315,920 | 10,310,653 | 10,274,019 |
| Primary Earnings per share of common stock (After preference and $1.40 cumulative convertible preferred dividend requirements) (Note d): | | | | | | |
| Income before extraordinary items | $2.59 | $2.73 | $2.24 | $ .47 | $2.78 | $3.01 |
| Extraordinary items | — | .21 | — | — | — | — |
| Net income | $2.59 | $2.94 | $2.24 | $ .47 | $2.78 | $3.01 |
| Diluted earnings per share of common stock (Note d): | | | | | | |
| Income before extraordinary items | $2.26 | $2.37 | $2.04 | $ * | $2.45 | $2.64 |
| Extraordinary items | — | .16 | — | — | — | — |
| Net income | $2.26 | $2.53 | $2.04 | $ * | $2.45 | $2.64 |
| Cash dividends per share of common stock (Note d): | $1.13⅓ | $ .93⅓ | $1.25 | $ .65 | $1.35 | $1.40 |

Alphabetical note references pertain to the notes following this statement; numerical note references pertain to the Notes To Consolidated Financial Statements of Schenley included elsewhere herein.

* Antidilutive.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME

(a) Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes as follows:

| Year ended August 31: | Amount |
|---|---|
| 1966 | $258,000,000 |
| 1967 | 259,000,000 |
| 1968 | 258,000,000 |
| Four months ended December 31, 1968 | 96,000,000 |
| Year ended December 31: | |
| 1969 | 308,000,000 |
| 1970 | 322,000,000 |

(b) Provision for Federal taxes on income comprises the following:

| Year ended August 31: | United States | Canadian | Total | Total Includes Deferred Taxes of |
|---|---|---|---|---|
| 1966 | $15,019,888 | $1,610,112 | $16,630,000 | $1,151,000 |
| 1967 | 16,467,945 | 1,862,055 | 18,330,000 | 1,506,000 |
| 1968 | 13,827,822 | 2,822,178 | 16,650,000 | (617,000) |
| Four months ended December 31, 1968 | 3,020,833 | 509,167 | 3,530,000 | (166,000) |
| Year ended December 31: | | | | |
| 1969 | 22,762,466 | 2,107,534 | 24,870,000 | 634,000 |
| 1970 | 20,284,416 | 3,865,584 | 24,150,000 | (193,000) |

(c) The extraordinary item in the year ended August 31, 1967 consisted of a gain on sale of real estate of $2,190,062 less Federal income taxes of $548,000, a net gain of $1,642,062. In order to determine the gain, proceeds from the sale were reduced by cost, determined on a specific identification basis.

To conform to a pronouncement of the Accounting Principles Board of the American Institute of Certified Public Accountants, net income as previously reported for the fiscal year ended August 31, 1967 has been restated to reflect the gain set forth above.

(d) The per share of common stock information reflects the effect of the 3 for 2 common stock split which was effective at the close of business on March 21, 1968.

(e) A reconciliation of net income previously reported to Schenley shareholders and retroactive adjustments necessary to reflect the pooling of 47.34% of BHM Industries, Inc. on December 15, 1969 is as follows:

| | Year Ended August 31, | | | Four Months Ended December 31, |
|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1968 |
| Net income, as previously reported | $20,469,743 | $22,725,868 | $16,793,876 | $3,520,724 |
| 47.34% of net income of BHM Industries, Inc. acquired in pooling of interests | 2,953,831 | 3,480,758 | 4,222,538 | 1,402,826 |
| Net income, per accompanying statement of consolidated income | $23,423,574 | $26,206,626 | $21,016,414 | $4,923,550 |

BHM Industries, Inc., then a newly formed company, acquired The Buckingham Corporation, in a pooling of interests transaction on May 15, 1969. From August 31, 1964 to May 15, 1969, The Buckingham Corporation was a 52.66% owned subsidiary of Schenley and included in Schenley's consolidated financial statements.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME—(Concluded)

(f) See "History and Business of Schenley—Recent Developments" for information as to the sale of The Buckingham Corporation. The following is a condensed statement of consolidated income of The Buckingham Corporation for the periods indicated:

| | Year Ended August 31, | | | Four Months Ended December 31, | Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1968 | 1969 | 1970 |
| Revenues | $48,146,739 | $52,282,460 | $63,843,744 | $21,353,484 | $67,188,377 | $60,092,816 |
| Costs and expenses | 35,153,719 | 37,088,206 | 44,470,789 | 15,530,713 | 46,000,612 | 42,785,648 |
| Income before taxes on income | 12,993,020 | 15,194,254 | 19,372,955 | 5,822,771 | 21,187,765 | 17,307,168 |
| Provision for taxes on income | 6,783,000 | 7,677,000 | 10,183,000 | 3,052,000 | 11,503,000 | 8,597,000 |
| Net income | 6,210,020 | 7,517,254 | 9,189,955 | 2,770,771 | 9,684,765 | 8,710,168 |
| Adjustments† | 791,243 | 747,778 | 1,054,460 | 350,172 | 627,421 | — |
| Net income as adjusted | $ 5,418,777 | $ 6,769,476 | $ 8,135,495 | $ 2,420,599 | $ 9,057,344 | $ 8,710,168 |

† Adjustments have been made for comparative purposes to reflect the elimination of interest income (net of applicable income taxes) on investments which were transferred to Schenley Industries, Inc. in December 1969.

Unaudited net sales and net income of Schenley for the three months ended March 31, 1971, amounted to $140,807,000 and $5,414,000 ($.57 per common share), respectively. For the first three months of 1970 comparable net sales and net income were $147,529,000 and $5,078,000 ($.53 per common share), respectively. In the three months ended March 31, 1971 extraordinary items consisted of a credit of $1,523,000 for gains on sales of certain assets and securities (net of applicable taxes of $667,000), and a charge of $1,523,000 representing provision for approximate decline in market quotation value of a Canadian subsidiary's investment in 450,000 shares of common stock of I.O.S., Ltd. from its cost basis of $1,800,000.

Had all outstanding convertible preferred shares been converted, earnings per common share would have been $.52 for the three months ended March 31, 1971 and $.49 for the comparable period in 1970.

In the opinion of the management of Schenley, the foregoing unaudited figures include all adjustments (which include only normal recurring accruals) necessary for a fair presentation thereof.

Schenley's business is seasonal in character; therefore the operating results for the three month periods ended March 31 are not proportionately indicative of operating results which may normally be expected for a full year.

## GLEN ALDEN CORPORATION
### UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED INCOME
### For the Year Ended December 31, 1970

The following pro forma statement of consolidated income sets forth the amounts shown in the Statement of Consolidated Income of Glen Alden Corporation and Subsidiaries for the year ended December 31, 1970, adjusted as shown below to give effect to the sale of Buckingham and as further adjusted to give effect to the proposed reorganization. This pro forma statement should be read in conjunction with the separate historical financial statements and the unaudited pro forma condensed consolidated balance sheet and notes thereto, all included elsewhere herein.

(In Thousands)

| | | Sale of Buckingham (Note 1) | | | Pro Forma | |
|---|---|---|---|---|---|---|
| | Glen Alden | Buckingham Year Ended December 31, 1970 | Adjustments | Glen Alden as Adjusted | Adjustments (Note 2) | Total |
| Revenues: | | | | | | |
| Sales and operating revenues | $1,311,962 | $60,040 | — | $1,251,922 | — | $1,251,922 |
| Other income—net | 4,115 | 53 | — | 4,062 | — | 4,062 |
| | 1,316,077 | 60,093 | — | 1,255,984 | — | 1,255,984 |
| Expenses: | | | | | | |
| Cost of sales and operating expenses | 966,279 | 38,390 | — | 927,889 | — | 927,889 |
| Selling, advertising, general and administrative expenses | 228,822 | 4,396 | — | 224,426 | — | 224,426 |
| Depreciation and amortization | 14,490 | — | — | 14,490 | — | 14,490 |
| Interest and debt expense | 57,033 | — | $(8,040) | 48,993 | $ 9,811 | 58,804 |
| | 1,266,624 | 42,786 | (8,040) | 1,215,798 | 9,811 | 1,225,609 |
| | 49,453 | 17,307 | 8,040 | 40,186 | (9,811) | 30,375 |
| Provision for income taxes | 20,782 | 8,597 | 3,970 | 16,155 | (4,709) | 11,446 |
| Income before minority interest and extraordinary items | 28,671 | 8,710 | 4,070 | 24,031 | (5,102) | 18,929 |
| Minority interest | 4,144 | — | (645) | 3,499 | (2,922) | 577 |
| Income before extraordinary items | 24,527 | 8,710 | 4,715 | 20,532 | (2,180) | 18,352 |
| Extraordinary items | (2,267) | — | — | (2,267) | — | (2,267) |
| Net income | $ 22,260 | $ 8,710 | $ 4,715 | $ 18,265 | $(2,180) | $ 16,085 |
| Earnings per Common Share: | | | | | | |
| Primary: | | | | | | |
| Income before extraordinary items | $1.01 | | | $ .82 | | $ .71 |
| Extraordinary items | (.11) | | | (.11) | | (.11) |
| Net income | $ .90 | | | $ .71 | | $ .60 |
| Fully Diluted: | | | | | | |
| Income before extraordinary items | $ .66 | | | $ .56 | | $ .64 |
| Extraordinary items | (.08) | | | (.08) | | (.08) |
| Net income | $ .58 | | | $ .48 | | $ .56 |
| Ratio of earnings to fixed charges | 1.72 | | | 1.67 | | 1.46 |

NOTES

1. Gives effect to the sale of Buckingham for $120,000,000 as if such sale had occurred as at January 1, 1970 assuming that (a) all of the $17,000,000 of Northwest notes acquired by Schenley were sold at January 1, 1970 at principal amount; (b) $12,500,000 of the proceeds were used to prepay at January 1, 1970 the then outstanding Schenley 3% notes payable to insurance companies (with reduction in interest expense of $365,000); (c) approximately $13,100,000 of the proceeds were used to pay estimated income taxes arising from the sale and $1,000,000 was provided for estimated fees, an aggregate of $14,100,000; and (d) the balance of the proceeds of sale of $93,400,000 were applied as at January 1, 1970 to the reduction of Schenley's short-term debt with commensurate adjustment of $7,675,000 in interest expense (at Schenley's average interest cost of short-term debt during 1970) less related estimated income tax benefit. For information with respect to the sale of Buckingham see "History and Business of Schenley—Recent Developments" elsewhere herein. See Note (f) to the Schenley Statement of Consolidated Income for information on Buckingham revenues and income.

2. Represents the estimated interest expense (or loss of interest income) at the rate of 6½% on $16,934,000 of cash ($1,101,000), interest on $101,606,000 of Debentures to be issued ($7,620,000), amortization of debt discount and expense ($1,452,000); estimated to be an aggregate of $20,321,000 over the 14 year life of the Debentures, reduction of interest expense at the rate of 7¼% on $5,000,000 of cash prepayment on insurance company notes ($362,000), less the estimated income tax benefit of such deductions and elimination of minority interest in adjusted Schenley earnings ($2,922,000).

3. Glen Alden's equity in the Schenley gain arising from the sale of Buckingham has been utilized, in the pro forma financial statements included in this Proxy Statement, to reduce intangibles.

# GLEN ALDEN CORPORATION

## UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

## December 31, 1970

### ASSETS

(In Thousands)

| | Glen Alden | Sale of Buckingham (Note 1): Buck-ingham | Sale of Buckingham (Note 1): Adjust-ments | Glen Alden as Adjusted | Pro Forma Adjustments (Note 2) | Pro Forma Total |
|---|---|---|---|---|---|---|
| Current assets | $ 769,626 | $18,755 | $120,000<br>(10,500)<br>(14,100) | $ 846,771 | $(16,934)<br>(5,000) | $ 824,337 |
| Investments | 23,185 | 779 | | 22,406 | | 22,406 |
| Property, plant and equipment—net | 185,333 | 92 | | 185,241 | | 185,241 |
| Other assets | 291,129 | 1,078 | (16,270)<br>(61,300) | 212,481 | 20,321<br>38,457 | 271,259 |
| Total | $1,269,273 | $20,704 | $ 17,830 | $1,266,399 | $ 36,844 | $1,303,243 |

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | | | |
|---|---|---|---|---|---|---|
| Current liabilities | $ 364,700 | $ 4,387 | $ (2,000) | $ 358,313 | | $ 358,313 |
| Notes payable, less current maturities | 199,272 | | (8,500) | 190,772 | $ (5,000) | 185,772 |
| 6% Sinking Fund Subordinated Debentures | 334,720 | | | 334,720 | | 334,720 |
| 7½% Sinking Fund Debentures | | | | | 101,606 | 101,606 |
| Reserves and other liabilities | 36,414 | 1,317 | 3,500 | 38,597 | | 38,597 |
| Minority interests in subsidiaries | 55,791 | | 9,830 | 65,621 | (59,762) | 5,859 |
| Subordinated convertible debentures | 10,814 | | | 10,814 | | 10,814 |
| Stockholders' equity: | | | | | | |
| Preferred and preference stocks | 12,275 | | | 12,275 | | 12,275 |
| Common stock | 21,407 | | | 21,407 | | 21,407 |
| Capital surplus | 129,932 | 15,000 | 15,000 | 129,932 | | 129,932 |
| Retained earnings | 128,822 | | | 128,822 | | 128,822 |
| Less treasury stock, at cost | (24,874) | | | (24,874) | | (24,874) |
| Stockholders' equity | 267,562 | 15,000 | 15,000 | 267,562 | | 267,562 |
| Total | $1,269,273 | $20,704 | $ 17,830 | $1,266,399 | $ 36,844 | $1,303,243 |

NOTES:

1. Gives effect to the sale of Buckingham as if such sale had occurred as at December 31, 1970 for $120,000,000 ($103,000,000 in cash and $17,000,000 in Northwest notes) and assumes (a) all of the $17,000,000 of Northwest notes acquired by Schenley were sold at December 31, 1970 at principal amount; (b) $10,500,000 of the proceeds of sale were used to prepay at December 31, 1970 the then outstanding Schenley 3% notes payable to insurance companies ($2,000,000 due currently); (c) approximately $13,100,000 of the proceeds were used to pay estimated income taxes arising from the sale and $1,000,000 was provided for estimated fees, an aggregate of $14,100,000; (d) a reserve of $3,500,000 was established for guarantees in connection with the sale; (e) elimination of goodwill ($16,270,000) which arose upon Schenley's initial acquisition of 52.66% interest in Buckingham in August 1964; (f) utilization of Glen Alden's equity of $61,300,000 in the Schenley extraordinary gain ($71,130,000, net of applicable income taxes of $13,100,000) arising from the sale as a reduction of intangibles. The balance sheet of Buckingham as at December 31, 1970 has been adjusted to reflect reduction of net worth to $15,000,000, the amount of guaranteed net worth pursuant to the terms of the sale. For information with respect to the sale of Buckingham see "History and Business of Schenley—Recent Developments" elsewhere herein.

2. Gives effect to the proposed reorganization as follows: (a) issuance of $101,606,000 principal amount of Debentures to Schenley security holders; (b) increase in debt discount and expense of $20,321,000, (c) elimination of $59,762,000 adjusted minority interest in Schenley; (d) increase in intangibles of $38,457,000; (e) payment of $16,934,000 cash to Schenley security holders; and (f) prepayment of $5,000,000 of 7¼% insurance company notes (see note (d) to "Capitalization", elsewhere herein).

3. This pro forma balance sheet should be read in conjunction with the separate historical financial statements and the unaudited pro forma statement of consolidated income and related notes, all appearing elsewhere herein.

4. The initial redemption prices of the Glen Alden preferred stocks at December 31, 1970, in the aggregate ($121,296,000) exceeded their stated values by $114,348,000. Upon liquidation the Senior Stock is first in order of preference, followed by the Class B Senior Stock. The Preferred Stock and Class C Stock are junior to the Class B Senior Stock, but rank on a parity with each other. There are no restrictions upon surplus arising out of such excess.

5. No provision has been made for expenses incident to the proposed reorganization as such expenses are not expected to be significant in relation to the pro forma balance sheet nor for stock options and commitments to issue shares of stock of Glen Alden.

## HISTORY AND BUSINESS OF GLEN ALDEN

The information set forth below and elsewhere herein concerning Glen Alden and its subsidiaries has been furnished by Glen Alden for inclusion herein.

### General

Glen Alden is a Delaware corporation organized in September 1966 and is the successor to the former Glen Alden Corporation, a Pennsylvania corporation. In May 1967, Glen Alden acquired the assets and business of The B.V.D. Company, Inc., and in June 1967, The Philip Carey Manufacturing Company ("Philip Carey") merged into Glen Alden. In December 1967, Stanley Warner Corporation ("Warner") merged into Glen Alden. During 1968, Glen Alden acquired approximately 88% of the outstanding Common Stock of Schenley. The business of B.V.D. is now carried on by a wholly-owned subsidiary of Glen Alden, and the business of Philip Carey is now carried on by Panacon Corporation, a subsidiary of Glen Alden. The principal portion of Warner's business presently owned by Glen Alden is carried on by wholly-owned subsidiaries of International Playtex Corporation, which, in turn, is a wholly-owned subsidiary of Glen Alden. Glen Alden's executive offices are located at 888 Seventh Avenue, New York, N. Y. 10019.

Until 1955 the principal business of the former Glen Alden Corporation was the production and marketing of anthracite coal. During the early 1950's, the declining market for anthracite coal resulted in coal operating losses and this business was sold in February 1966. As a result of the B.V.D., Philip Carey, Warner and Schenley acquisitions referred to above and several earlier acquisitions and dispositions of businesses, Glen Alden is now engaged (a) through its subsidiary, Schenley, in the production, importation and sale of distilled whiskey and spirits under various brand names, (b) through its subsidiaries, International Playtex Corporation (which, together with its subsidiaries, is sometimes referred to herein as "Playtex") and The B.V.D. Company, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "B.V.D."), in the manufacture and sale of a variety of consumer products, (c) through its subsidiary, Panacon Corporation (which, together with its subsidiaries, is sometimes referred to herein as "Panacon"), in the mining of asbestos fibres and the manufacture of a wide variety of products, all for use in the building construction industry, (d) through subsidiaries, in the manufacture and sale of a variety of textiles (both apparel and industrial), (e) through its subsidiary, ILC Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "ILC"), in the research, development and manufacture of a variety of products for industrial users and the United States Government (including the production of space suits for the Apollo Project), and in the manufacture of parachutes and parachute assemblies, and (f) through B.V.D. and Panacon, in the operation of retail outlets.

Glen Alden was engaged until January 28, 1971, through its former subsidiary, RKO-Stanley Warner Theatres, Inc., in the operation of a chain of motion picture theatres, at which time Glen Alden sold all of the outstanding capital stock of such subsidiary to Cinerama, Inc. for $21,500,000 in cash. Except where otherwise specifically indicated, the description of Glen Alden does not include this former subsidiary.

As of December 31, 1970, Glen Alden and its subsidiaries employed approximately 43,500 persons.

### *Sales and Profit Contributions*

The following table shows the percentage contribution to the sales and operating revenues and operating profit of Glen Alden for the five years ended December 31, 1970 of each line of business of Glen Alden which contributed 10% or more to such sales and revenues or profit during either of the last two years. For purposes of the table, operating profit has been taken before interest, debt

expense, income taxes, minority interests and extraordinary items. Operations discontinued or sold prior to December 31, 1970 are excluded

| | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|
| **Sales and operating revenues:** | | | | | |
| Distilled whiskey and spirits(a) | — | — | 25.3% | 52.3% | 51.0% (b) |
| Consumer products | 54.2% | 54.4% | 41.7 | 26.7 | 25.6 |
| Building materials and supplies | 17.3 | 18.2 | 12.9 | 8.7 | 10.6 |
| Other(c) | 28.5 | 27.4 | 20.1 | 12.3 | 12.8 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Operating profit:** | | | | | |
| Distilled whiskey and spirits(a) | — | — | 19.1% | 59.3% | 54.3% (b) |
| Consumer products | 59.0% | 67.6% | 50.8 | 21.6 | 30.3 |
| Building materials and supplies | 15.1 | 9.7 | 13.8 | 8.3 | 8.0 |
| Other(c) | 25.9 | 22.7 | 16.3 | 10.8 | 7.4 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

(a) Operations of Schenley and Buckingham included from date of acquisition, August 31, 1968.

(b) In 1970, operations of Buckingham accounted for approximately 4.6% of Glen Alden's total sales and operating revenues and 16.5% of total operating profit.

(c) Includes theatre operating revenues which accounted for approximately 9.7%, 9.1%, 5.8%, 3.1% and 3.1% of Glen Alden's total sales and operating revenues in 1966, 1967, 1968, 1969 and 1970, respectively, and accounted for 2.4%, (1.4%), 3.3%, 2.3% and 1.5% of the operating profit in each such year, respectively.

**Distilled Whiskey and Spirits—Schenley**

See *"History and Business of Schenley"* elsewhere herein.

**Consumer Products—Playtex**

*Products*

Playtex's sales of consumer products have expanded from approximately $30,000,000 in 1954 to approximately $198,000,000 for the year ended December 31, 1970. These consumer products fall generally into two categories: (a) ladies' foundation garments (bras and girdles made from both natural and man-made fabrics, as well as natural and synthetic latex) sold under the *"Playtex"* and *"Sarong"* trademarks and other trademarks; and (b) a line generally characterized as "family products", including baby pants, disposable baby nursing bottles, swim caps, latex gloves, tampons, throat lozenges and tooth brushes, sold under the *"Playtex"* trademark and other trademarks, including *"Tek"*.

The line of ladies' foundation garments is designed for mass marketing and, accordingly, Playtex has limited its production to a comparatively small number of styles which avoid fashion extremes. The foundation garments as described above are manufactured and sold in the United States and abroad.

*Sales and Distribution*

The *"Playtex"* and *"Sarong"* girdles and bras are principally sold through Playtex's own sales organization directly to retail stores. Bras and girdles are also sold to catalogue houses under the *"Playtex"* and private labels. The family products are principally sold directly, through Playtex's own sales organization, to various types of retailers, jobbers and wholesalers.

Playtex advertises, particularly with respect to its *"Playtex"* products, primarily on television. Playtex also puts heavy emphasis on cooperative newspaper advertising, in-store displays, and distinctive packaging.

The Playtex sales force, which operates nationally, is directed from a New York sales office. Deliveries are made from warehouses located in Dover, Delaware and Los Angeles, California. Sales in foreign countries are made from eleven sales offices and deliveries are made from a number of distribution points.

During the year ended December 31, 1970, sales to domestic purchasers comprised 73% of Playtex's total sales, and foreign customers, in 55 countries, accounted for the balance. No single customer accounted for more than 4% of Playtex's net sales during such period.

*Raw Materials*

The principal raw materials used by Playtex include elastic fabrics containing spandex (a synthetic fibre), cotton fabrics, nylon tricot and natural and synthetic latex. Playtex purchases most of its raw materials from outside sources. All of the principal raw materials and other items used in the manufacture or assembly of products sold by Playtex are, in the opinion of its management, in adequate supply and available from a number of sources.

*Patents and Trademarks*

Playtex follows the policy of seeking patents with respect to its inventions when it believes such patents will be helpful in the conduct of its business. As a result, various Playtex products and manufacturing techniques are patented in the United States and in many foreign countries. Playtex also follows a program of enforcing its patent rights, and, at any given time, may be involved in one or more patent litigations. In the opinion of management, the loss of any one patent or group of patents would not materially affect the business of Playtex.

Trademarks are an important selling aid for Playtex's products. The trademark *"Playtex"* and a number of others are registered in the United States and many foreign countries.

*Employees*

Playtex employs approximately 11,000 persons, substantially all of whom are engaged in the manufacture and sale of its products and in the maintenance of its plants and properties. 350 of such employees, located at the Tek Hughes facility, are members of a union which has a collective bargaining agreement with the Tek Hughes division.

Playtex has established, for the benefit of its employees, two pension plans and two profit sharing plans, of which one profit sharing plan is contributory. In addition, Playtex maintains employee benefit plans which provide life insurance, sickness and accident benefits, and hospital and surgical benefits.

Playtex has never experienced a strike or a general unauthorized work stoppage and considers its relations with its employees to be good.

*Competition*

Playtex faces strong competition with respect to all of the products which it manufactures and sells. Management believes, on the basis of information available to it, that Playtex ranks among the leaders in the United States in the sale of bras and girdles, household latex gloves and disposable baby bottles.

*Property*

The operations of Playtex are conducted at a variety of locations in the United States and Puerto Rico as well as in many foreign countries. Playtex owns its principal United States facilities which are located in Dover, Delaware (2 plants), Watervliet, New York and Manati, Puerto Rico and which contain an aggregate of approximately 850.000 square feet. Playtex leases facilities in Manchester, Newnan and LaGrange, Georgia, Lafayette, Alabama, Paramus, New Jersey, Barceloneta and Dorado, Puerto Rico and Los Angeles, California, which contain an aggregate of approximately 560,000 square feet.

In addition, Playtex leases sales and executive offices in New York, New York and nine secondary warehouses located in Dover, Delaware and Troy, New York. The leases for these facilities expire at various dates from 1971 to 1994.

Playtex owns eight facilities which are located in Arnprior, Ontario, Canada, La Tour du Pin, France, Alzey, West Germany, Pomezia, Italy, Mexico City, Mexico, Johnstone, Scotland, Ennis, Ireland and Northmead, Australia and which contain an aggregate of approximately 520,000 square feet, approximately 95,000 square feet of which, as of December 31, 1970, were leased to others or not in use. Playtex leases two facilities located in Port Glasgow, Scotland and Castellar del Valles, Spain, which contain an aggregate of approximately 245,000 square feet.

Sales offices are maintained in Paris, France, Frankfurt, Germany, Rome, Italy, London, England, Madrid, Spain, Mexico City, Mexico, Northmead, Australia, Amsterdam, Holland, Brussels, Belgium, Copenhagen, Denmark and Toronto, Canada. Additional warehouse facilities are maintained at Jallieu, France and Pomezia, Italy.

Additional distribution centers under lease are located in Copenhagen, Denmark, Malton, Canada, Brussels, Belgium and Amsterdam, Holland.

Playtex leases its foreign facilities, sales offices and distribution centers under leases expiring at various dates from 1971 to 1993.

On a single shift basis, Playtex's domestic facilities are utilized, on the average, at approximately 95% of capacity and its foreign facilities are utilized, on the average, at approximately 85% of capacity. Management of Playtex believes that its facilities and equipment are capable of meeting operating requirements in peak periods.

**Consumer Products—B.V.D.**

*General*

B.V.D., continuing a business founded in 1876, is engaged in the manufacture and sale of a varied line of men's and boys' clothing and furnishings, women's lingerie, sleepwear and undergarments, men's and women's rainwear and children's and infants' wear.

*Raw Materials*

B.V.D. uses both knit and woven cloth in the manufacture of its apparel. B.V.D. owns and operates two mills in which many of the various types of cotton cloth required in its garment manufacturing operations are fabricated in their entirety from the raw cotton to the finished cloth. These plants produce approximately 30%, in the aggregate, of all B.V.D.'s cloth requirements for the manufacture of its apparel and the balance is obtained from outside sources. B.V.D. spins 90% of its yarn requirements for its cloth manufacturing operations.

*Distribution and Marketing*

B.V.D. sells its products principally to retail outlets, such as department stores, chain stores, mail order companies and men's and women's specialty shops. Substantially all sales (except foreign sales, which are not significant) are made by sales personnel employed by B.V.D. and are pursuant to open purchase orders. B.V.D. markets its products under such labels as *"B.V.D."*, *"Wonderknit"*, *"Botany"*, *"Beau Brummell"*, *"Mr. John"* and others in the case of men's and boys' underwear, outerwear and neckwear; *"Gilead"* and *"Jubilee"* in the case of women's lingerie, sleepwear and undergarments; *"Almar"* in the case of men's and ladies' all-weather coats; *"Anvil"*, *"Meadow"* and others in the case of work clothes and slacks; and *"Fawn"*, *"McKem"* and *"Nappies"* in the case of children's and infants' wear.

B.V.D. advertises its products on television and in national and trade magazines, newspapers, and billboards and through printed materials used in retail outlets.

*Employees*

B.V.D. employs, in its consumer products operations, approximately 9,360 persons, of whom approximately 90% are engaged in the production of its products and maintenance of its plants and properties. Of the production and maintenance workers, approximately 2,000 are employed under union agreements. Salaried employees of B.V.D. and certain of its subsidiaries are included in Glen Alden's pension plan. Salesmen are included in a separate pension plan. Management considers its employee relations to be good.

*Property*

B.V.D.'s manufacturing operations are conducted at various locations in the United States and Puerto Rico.

B.V.D. owns eight plants located in High Point, Mt. Gilead and Candor, North Carolina, West Wyoming, Pennsylvania, Richmond, Virginia, Clinton, South Carolina and Washington and Tignall, Georgia, which contain an aggregate of approximately 553,000 square feet, approximately 213,100 square feet of which, as of December 31, 1970, were not in use. B.V.D. leases 30 plants located in Montvale, New Jersey, Chadbourne, Kings Mountain, Monroe, Mocksville, Hamlet and Mt. Gilead, North Carolina, Cincinnati, Ohio, Galax, Grayson County and Henrico County, Virginia, St. Louis, Missouri, Okolona, Mississippi, Livingston, Tennessee, Rochester, New York, Braselton, Georgia, Bay Minette, Alabama, Winslow, Arizona, Clio and Mullins, South Carolina and Caguas, Vieques, Arecibo, Las Marias, Moca and Ponce, Puerto Rico, which contain an aggregate of approximately 2,686,000 square feet, approximately 392,500 square feet of which, as of December 31, 1970, were not in use. The leases on these plants expire at various dates from 1971 to 1992.

The plants located in Chadbourne, Kings Mountain, Monroe, Cincinnati, Montvale and Galax are leased from a corporation all the stock of which is owned by trustees of an employees' pension fund of National Shirt Shops, Inc., a wholly-owned subsidiary of B.V.D. The plants located in St. Louis, Rochester, and Grayson County are also leased from a corporation, all of the stock of which is similarly owned by trustees of an employees' pension fund of National Shirt Shops, Inc. These properties, which were purchased from B.V.D. in 1966, were leased for an aggregate annual net rental of approximately $561,000 during the year ended December 31, 1970, under leases expiring in 1991, renewable, at reduced rentals, through 2021.

On a single shift basis, the B.V.D. plants are utilized on the average at approximately 75% to 95% of capacity. Management of B.V.D. believes that its plants and equipment are capable of meeting operating requirements in peak periods.

*Competition*

Substantially all of B.V.D.'s business is highly competitive. In some cases, B.V.D. products (such as women's lingerie, sleepwear and bras, men's neckwear and other similar items) are subject to changes in fashion and design, whereas some of the other items sold by B.V.D., such as men's and boy's underwear, work clothes and the like, are relatively stable.

**Building Materials and Supplies—Panacon**

*General*

Panacon is the surviving corporation of the merger, on April 9, 1970, of Philip Carey Corporation, a wholly owned subsidiary of Glen Alden, into Briggs Manufacturing Company, 48% of the Common Stock of which was then owned by Glen Alden. As of February 15, 1971, Glen Alden owned 6,528,739 shares of Common Stock of Panacon and 7,356,000 shares of its Class A Common Stock. These shares represented approximately 79.3% of the voting power of the outstanding securities of Panacon and an approximately 89.1% equity interest in Panacon.

Panacon is engaged primarily in the manufacture and sale of a wide variety of products for use in the building construction industry and the mining and milling of asbestos fibres, substantially all of which are used in the manufacture of products for the building construction industry by Panacon and by others.

Panacon's activities are conducted by the following decentralized divisions and subsidiaries:

| Division or Subsidiary | Principal Business |
|---|---|
| Philip Carey Company | Building and industrial products |
| Philip Carey Corporation | Asbestos paper |
| Briggs Manufacturing Company | Porcelain-on-steel and vitreous china plumbing fixtures and automotive stamping |
| Republic Heater Company | Water heaters |
| Miami-Carey Company | Cabinets, hoods, etc. |
| Miami-Carey Ltd. | Cabinets, hoods, etc. |
| Carey-Canadian Mines, Ltd. | Asbestos fibres |

*Manufactured Products*

Philip Carey Company manufactures and sells a variety of building and industrial products, including asphalt roofing products, such as asphalt shingles, roll roofing and asphalt plastic cement, other asphalt based products, such as asphalt plank and tile and asphalt compounds for electronic equipment, and a number of asbestos based products, such as asbestos cement, flat and corrugated sheets, gasket stock and millboard. The division also markets certain products manufactured by others, such as asphalt, glass fibre insulation, tar pitch, vapor barriers, mineral fibre siding and vinyl siding. Philip Carey Corporation manufactures asbestos paper which is sold through the sales organization of Philip Carey Company.

The principal raw materials used in the manufacture of the products of Philip Carey Company are asphalt, asbestos fibre, cement, waste wood, roofing granules, stone dust, talc, tar and waste paper. During the last three years the division has purchased between 40% and 55% of its asbestos fibre requirements from Carey-Canadian Mines, Ltd. The division purchases the balance of its asbestos fibre requirements (some of which are of different grades and types) from a number of other mines. Substantial quantities of asbestos fibre are purchased from one unaffiliated mine pursuant to a requirements contract which expires in June 1978 subject to renewal by the division for an additional 10-year period. All of the raw materials required by this division are in adequate supply. Except for certain roofing granules which in the quantity and quality needed by the division are available only from two sources, all such raw materials are available from a number of sources. Currently, approximately

39% of the division's asphalt requirements for its manufactured products are obtained pursuant to a contract expiring on December 31, 1972 with a major oil company.

Philip Carey Company has its own sales organization which operates through ten sales offices throughout the United States.

Briggs Manufacturing Company manufactures porcelain-on-steel plumbing fixtures, such as bathtubs, lavatories (bathroom sinks) and kitchen sinks, and vitreous china plumbing fixtures, such as water-closets (toilets) and lavatories for residential, mobile home and institutional use. In addition, the division conducts contract stamping and painting operations for the automotive and plumbing industries.

The plumbing fixtures manufactured by this division are marketed under the product names *"Briggs"* and *"Case"* as well as under private labels for others. In the past, products sold under the *"Briggs"* name were designed for the low to medium price market while the *"Case"* line was designed for the higher quality, higher price market. Currently, both the *"Briggs"* and *"Case"* product lines are designed to offer fixtures in a full price range.

The principal raw materials and components used in the manufacture of these products are steel, clays, brass fittings, cartons and frit and oxides. All of these raw materials are in adequate supply and are available from a number of sources.

Republic Heater Company manufactures a complete line of gas and electric water heaters for the residential and mobile home markets. This division is subdivided into four sub-divisions at its plant sites in Erie, Pennsylvania, Dallas, Texas, Los Angeles, California, and Portland, Oregon. Each of these subdivisions has its own general manager, and sales, production and financial staff.

The principal raw materials and components used in the manufacture of this division's products are steel, thermostats and other controls, dip tubes, cartons and insulation material. In the manufacture of water heaters this division has recently found it economical to use a significant amount of foreign steel. All of such materials are currently in adequate supply and are available from a number of sources.

Republic Heater Company's residential water heaters (which constituted substantially all of its water heater sales in 1970) are marketed under the trade names *"Republic"*, *"Briggs"*, *"Heatmaster"*, and various private labels for others. A line of commercial water heaters is marketed under the trade name *"Atlas"*. Management estimates that more than 50% of the water heaters sold are for the replacement market and the balance is used in connection with new building construction and for the mobile home industry.

The principal fabricated products of Miami-Carey Company are bathroom cabinets, kitchen range hoods, bathroom and kitchen ventilating fans, framed wall mirrors, door chimes, and bathroom lighting fixtures. Certain component parts, such as a portion of the lighting fixtures for bathroom cabinet units, electric motors used in ventilating fans, and glass for mirrors, are purchased.

In addition to its manufactured products, the division sells, under the *"Miami-Carey"* trademark, bathroom accessories (such as towel bars, soap and glass holders, and electric bathroom heaters), home radio intercommunication systems and a line of commercial washroom equipment, all of which it purchases from others.

This division has its own sales organization which operates through eight sales offices throughout the United States. Primary channels of distribution are building material distributors, cash and carry chains, electrical wholesalers, plumbing supply houses, and glass distributors.

The principal raw materials and components used by Miami-Carey Company are steel, plate and float glass, and electric motors and switches, all of which are available in adequate supply from a number of sources.

Miami-Carey Ltd., a wholly-owned subsidiary of Panacon located in Toronto, Ontario, is presently engaged in substantially the same type of operations as Miami-Carey Company and also manufactures prefabricated electric fireplaces, access doors, synthetic marble vanity tops and other products for residential bathrooms and kitchens.

In addition to its manufactured products, Miami-Carey Ltd. sells, through territory sales representatives, bathroom accessories, electric bathroom heaters, and commercial washroom equipment and wood-burning fireplaces and accessories which it purchases from others, and door chimes, bells and buzzers produced by Miami-Carey Company plants in the United States.

*Mining*

Since 1915 Carey-Canadian Mines, Ltd., or its predecessor, has been engaged in asbestos mining operations in the East Broughton, Quebec area.

The present mining area has been divided by management for convenience into five zones, designated as Zones B, C, D, E and T. Carey-Canadian owns the land area of Zones C, D, and E. It has open pit mining rights in the land area of Zone B granted by the land owners and mining rights in the land area of Zone T granted by the government of the Province of Quebec.

Zones B and C have been extensively tested by diamond drilling for the purpose of determining the character of the materials and the tonnage of underlying asbestos-bearing rock available for open pit mining. Open pit mining has been conducted in Zone B during the past six years and in Zone C during the past eleven years.

Based on the drilling and mining completed to date, management estimates that there are reserves of approximately 4,900,000 tons in Zone B, and 29,600,000 tons in Zone C, of asbestos-bearing rock containing ore of a fibre value similar to that which has been theretofore mined and milled. Based on the current rate of mining (approximately 1,400,000 tons per year) and past yields of ore, this amounts to approximately 25 years of reserves.

Drilling performed in other portions of these two zones and in the other three zones indicates the existence of approximately 68,700,000 additional tons of asbestos-bearing ore. Test drilling to date tentatively indicates that approximately 28,700,000 tons of this additional reserve is of substantially the same quality as the fibre currently being mined. The balance appears to be of a lower quality, and exploration work done to date is insufficient to enable Carey-Canadian to predict to what extent this material can be mined commercially.

The Carey-Canadian mines are known as short fibre mines, and the fibres produced are predominantly in the lower priced "Asbestos Shorts" grades which are used in the manufacture of floor tile, plastics, joint-cement, and similar products. Significant production is also obtained of fibres falling in the "Asbestos Fibres" grades which are used principally in the manufacture of asbestos papers and asbestos cement products. The grade and type of fibre produced can be varied to a limited extent by modifications in the ore processing operations at the highly automated mill at East Broughton which Carey-Canadian Mines owns and operates.

The following table sets forth certain information with respect to the operations of Carey-Canadian's mines. Intercompany sales have not been excluded.

| Year | Tons of Rock Milled | Percentage of Fibre Recovered | Direct Operating Costs per Ton of Rock Milled* | Sales Value Per Ton of Rock Milled | Percentage of Sales Value Attributable to | |
|---|---|---|---|---|---|---|
| | | | | | Fibre | Shorts |
| 1966 | 1,074,096 | 17.16% | $3.98 | $9.05 | 27.55% | 72.45% |
| 1967 | 1,050,713 | 16.83 | 4.25 | 8.85 | 30.34 | 69.66 |
| 1968 | 1,288,383 | 15.52 | 3.86 | 8.44 | 35.38 | 64.62 |
| 1969 | 1,350,609 | 14.79 | 3.92 | 8.45 | 37.06 | 62.94 |
| 1970 | 1,405,908 | 13.85 | 3.93 | 7.43 | 38.20 | 61.80 |

* Direct operating costs exclude depreciation, depletion, and selling and administrative expenses. The cost per ton of rock milled for such excluded cost items for the years ended December 31, 1966, 1967, 1968, 1969 and 1970 was $.93, $.96, $.81, $.82 and $.88, respectively.

There have been no material changes in mining conditions or in the deposit being mined at these mines over the past several years and none are anticipated, other than normal variations which may result from the relocation, if any, of mining operations and the type and quantity of fibre produced. However, costs may increase in the future due to increased ratio of waste removed to asbestos-bearing rock obtained as the depth of the pits increases. Hauling and water pumping costs also increase for the same reason.

Commencing May 1, 1970 all fibre sales of Carey-Canadian, except to customers in Canada, were made through a division of Panacon in the United States. In 1970 Philip Carey Company and Philip Carey Corporation accounted for approximately 12.5% of total fibres shipped by Carey-Canadian in terms of sales value and approximately 9.2% in terms of tonnage. During the year ended December 31, 1970 approximately 39.8% of fibre sales by Carey-Canadian and Panacon (excluding inter-company sales) were to customers in the United States; 5.5% were to customers in Canada and the remaining sales were to customers in foreign countries. Of these sales 74% were made to four customers and to 17 distributors who re-sell to a number of customers.

*Employees*

Panacon has approximately 4,800 full-time employees in the United States and Canada. Substantially all of its approximately 3,500 production and maintenance hourly-rated employees (excluding employees of Western Tire Auto Stores) are represented by labor unions. Panacon has 18 principal labor agreements. Six expire in 1971, eleven in 1972, and one in 1973. Western Tire, a Panacon division hereinafter described, employs approximately 200 persons on a full-time or part-time basis. Approximately one-third of these employees are covered under nine additional union agreements. Though there were several short-term work stoppages in 1968 and 1969 at plants of Briggs Manufacturing Company, there were no work stoppages in 1970. Panacon considers its relationship with its employees and the unions representing them to be satisfactory.

Panacon has in effect pension or profit-sharing plans for most of its salaried and hourly-rated employees, and has other employee benefit plans providing life insurance, sickness and accident benefits, and hospital and surgical benefits.

*Competition*

There is strong competition with respect to all of the products sold by Panacon. It competes with a large number of both smaller and larger companies. Management believes, on the basis of information available to it, that Carey-Canadian Mines, Ltd. is one of the free world's leading producers of asbestos fibres. Briggs Manufacturing Company is believed by management to be one of the leading producers of porcelain-on-steel bathtubs in the United States, which bathtubs represent approximately 40% of the total U.S. bathtub market, the balance consisting almost entirely of porcelain-on-cast iron bathtubs which generally sell at higher prices than porcelain-on-steel bathtubs. The business of Panacon is significantly dependent upon conditions in the building construction industry, an industry subject to cyclical and seasonal effects.

*Property*

Panacon owns 13 plants in the United States and two in Canada, and leases five additional plants in the United States under leases expiring at various dates from 1973 to 1996. See "Management of Glen Alden—Certain Transactions". These plants currently have capacity for at least limited additional production in all areas of activity of Panacon except (i) milling asbestos fibres and (ii) manufacturing dry felt, an essential ingredient in Philip Carey Company's asphalt roofing products and certain other of its products. Panacon's facilities for milling asbestos fibre and manufacturing dry felt are currently utilized at or close to their capacity.

**Textile Manufacturing**

Glen Alden conducts its textile manufacturing operations through Gera Corporation ("Gera"), approximately 99.5% of the issued and outstanding capital stock of which is owned by Glen Alden. Gera owns all of the capital stock of Swift Textiles, Inc. ("Swift"), located in Columbus Georgia and

Phenix City, Alabama, and Opp Cotton Mills ("Opp") and The Micolas Cotton Mills ("Micolas"), both located in Opp, Alabama. B.V.D. is also engaged in textile manufacturing, principally for use in its own products.

Swift is a textile manufacturer producing fabrics for apparel and industrial users. Substantially all fabric sold is in dyed and finished form. Opp and Micolas, both acquired in 1962, are manufacturers of woven cotton materials for apparel, industrial and decorative use, which are sold in an unfinished state.

Swift has approximately 1,940 employees, and Opp and Micolas together have approximately 1,100 employees divided almost equally between them. Substantially all of these employees are located at their respective plants. There is no union representation in any of these subsidiaries and no unauthorized work stoppage has occurred in the last 30 years. Employees are entitled to the benefits of a pension plan. Management considers its labor relations in all of these plants to be good.

Swift owns a 809,000 square foot plant, in Columbus, Georgia, approximately half of which was built approximately 70 years ago, and all of which was extensively modernized during the past year. Swift leases a 500,000 square foot plant, completed in 1969 to its specifications, in Phenix City, Alabama, under a lease expiring in 1987.

Opp and Micolas own their respective plants consisting of an aggregate of 466,000 square feet, in Opp, Alabama. Micolas leases an extension to its plant, under a lease expiring May 1, 1989.

**Government and Industrial Division—ILC**

Glen Alden's government and industrial division, operated through a 70% owned subsidiary, ILC Industries, Inc., is engaged principally in the design, fabrication and manufacture of astronaut space suits for the National Aeronautics and Space Administration and has been the prime manufacturer of such suits. Through a subsidiary, M. Steinthal & Company, Inc., acquired by ILC in May 1970 for $1,662,510, in cash, ILC is engaged in the design, fabrication and manufacture of parachutes and parachute systems for the U. S. Government. ILC is also engaged in the manufacture of inflatable structures for industrial and commercial users and the production of protective helmets and accessories for law enforcement agencies and recreational vehicle operators.

For the year ended December 31, 1970, approximately 55% of ILC's revenues and approximately 85% of its pretax income was attributable to the design, fabrication and manufacture of space suits and approximately 37% of its revenues and approximately 10% of its pretax income was attributable to the design, fabrication and manufacture of parachutes and parachute systems.

The dollar amount of backlog orders of ILC, as of December 31, 1969, was approximately $1,500,000 and, as of December 31, 1970, was approximately $5,000,000, of which approximately $1,360,000 was attributed to Steinthal. The current backlog (all of which is attributable to Government contracts) is expected to be filled within the current fiscal year. Substantially all of ILC's revenues are obtained from sales (almost entirely of space suits and parachutes) to the United States Government. In accordance with standard Government procedures, all such contracts are subject to change or termination at any time at the convenience of the Government, but, in such event, ILC would be entitled to recover its cost plus appropriate profit.

ILC is the prime manufacturer of space suits and has no major competitors. All other areas in which ILC is engaged are highly competitive. With respect to parachutes and parachute systems, that industry is presently characterized by substantial excess capacity and it is expected that this condition will continue to increase in the immediate future.

During the year ended December 30, 1970, ILC employed approximately 30 professional employees and spent approximately $400,000 on the improvement of its products and the development of new products. Approximately $250,000 of this development work was Government sponsored. ILC owns a number of United States patents and has a number of patent applications pending. In the opinion of management, the loss of any one patent or group of patents would not materially affect the business of ILC. ILC holds no licenses under any patents.

ILC employs approximately 1,100 persons, substantially all of whom are engaged in the development, manufacture and sale of its products and in the maintenance of its plants and properties. ILC has never experienced a strike or a general unauthorized work stoppage and regards its relations with its employees to be good.

ILC owns a 100,000 square foot plant, being utilized at capacity, in Dover, Delaware and leases, under a lease expiring June 30, 1978, a 45,000 square foot plant, being utilized at 75% of capacity, in Frederica, Delaware. ILC's subsidiaries lease two plants containing an aggregate of 125,000 square feet in Roxboro, North Carolina, which are being utilized at capacity, and also leases an aggregate of 20,600 square feet of warehouse space at three locations in Roxboro. The leases on the plants expire August 30, 1972 and are renewable through 1980. One lease on the warehouse space expires in 1971 and the other two facilities are leased on a month-to-month basis.

**Retailing**

B.V.D. operates 242 retail men's furnishings shops (as of December 31, 1970) in various downtown and shopping center locations in 32 states and the District of Columbia, which employ an aggregate of approximately 2,500 persons. These shops consist principally of the National Shirt Shops chain, and also include the Adams Clothes chain and Rockingham Stores. During 1970 B.V.D. closed four unprofitable stores and opened twenty new stores located principally in shopping centers and enclosed malls.

Through its Western Tire Auto Stores division ("Western Tire"), Panacon operates a chain of retail outlets engaged in the sale of tires, batteries, auto accessories and appliances. The chain, located in 11 states, consisted, as of December 31, 1970, of 1 retail store and 29 leased departments in discount stores and employs on a full-time or part-time basis approximately 200 persons. During 1970, Western Tire closed eleven unprofitable retail stores. It expects to close eleven leased departments in mid 1971. See "Management of Glen Alden—Certain Transactions".

All of the Western Tire outlets and substantially all of B.V.D.'s retail shops are leased.

**Litigation**

Several legal proceedings described below have been commenced by persons claiming to be stockholders of Schenley, with respect to the Stock Purchase Agreement, dated March 20, 1968, with Lewis S. Rosenstiel, whereby Glen Alden purchased shares of Common Stock of Schenley from Mr. Rosenstiel and related sellers, and its subsequent Exchange Offer, dated August 8, 1968, to the remaining holders of Schenley Common Stock (the "Exchange Offer"). In each case, indemnification has been claimed by Mr. Rosenstiel under the relevant provisions of the Stock Purchase Agreement.

Three actions have been instituted by Andrew Allen, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 25, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about March 26, 1968) and one in the United States District Court, Southern District of New York (instituted on or about March 25, 1968). In each case the defendants, in addition to Glen Alden, are Schenley and each of its then directors. In each case the complaint, in essence, alleges that (a) Glen Alden induced the directors of Schenley to breach their fiduciary obligations in connection with the transactions contemplated by the Stock Purchase Agreement; (b) Glen Alden made certain false and misleading statements with respect to the aforesaid transactions; (c) Glen Alden paid the Sellers under the Stock Purchase Agreement a price for their shares of Schenley Common Stock in excess of that proposed to be offered to the other holders of Schenley Common Stock pursuant to the Stock Purchase Agreement; (d) Glen Alden, by such conduct, deprived Schenley of an opportunity to sell its assets and deprived its stockholders of an opportunity to sell their shares at the best obtainable prices; and (e) Schenley's cash and other assets are being utilized by Glen Alden and Lewis S. Rosenstiel to meet the obligations incurred in connection with the transactions contemplated by the Stock Purchase Agreement. In each case the complaint sought to enjoin Glen Alden from consummating the Exchange Offer and to recover from Glen Alden and the individual defendants their alleged profits and the alleged

losses of Schenley and its stockholders, and attorneys' fees. In the case instituted in the United States District Court, the complaint also alleges that the transactions described are in violation of Section 10(b) of the Securities Exchange Act of 1934. Glen Alden has filed answers denying the material allegations of the complaints in these actions. Plaintiff has conceded that, by virtue of the terms of the Exchange Offer as consummated, these three actions have been rendered moot. In September of 1970, plaintiff instituted a fourth action in the United States District Court, District of Delaware, naming Glen Alden as defendant. In the complaint, plaintiff alleges, in essence, that Glen Alden increased its offer to the public stockholders of Schenley as a result of the prior actions he instituted, and that the making of the tender offer to said stockholders and distribution pursuant thereto improperly prevented the plaintiff from obtaining attorneys' fees from the stockholders whom he allegedly benefited. The complaint seeks recovery of attorneys' fees for the result allegedly achieved for Schenley stockholders in the amount of $3,344,800.

Two actions have been instituted by Irving Miller, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 26, 1968) and one in the Court of Chancery of the State of Delaware (instituted on or about March 28, 1968). In the Miller Delaware case, the defendants are substantially the same as those described above in the Allen cases. The complaint in this case alleges that (a) Glen Alden aided and abetted defendant Lewis S. Rosenstiel in an alleged violation of his fiduciary duties to Schenley and its stockholders by paying to Sellers, pursuant to the Stock Purchase Agreement, an alleged premium for their shares of Schenley Common Stock, (b) the individual defendants agreed, in return for such premium, to give Glen Alden control of the Board of Directors of Schenley and (c) under an alleged proposed agreement with another corporation, Schenley's stockholders would have received a greater price for their shares of Schenley Common Stock. The complaint sought an injunction against Glen Alden taking control of the Schenley Board of Directors, and seeks to recover the alleged profits made by defendants and damages for alleged waste as a result of the transactions complained of and attorneys' fees. Glen Alden has filed an answer denying the material allegations of the complaint in this action. In the Miller New York case the defendants are the same as in the Miller Delaware case except that Glen Alden is not named as a defendant. The allegations in the complaint are substantially the same as in the Miller Delaware case. Plaintiff has conceded that by virtue of the terms of the Exchange Offer as consummated, these two actions have been rendered moot. In January of 1971, the attorneys who represented Mr. Miller in the above described actions instituted an action in the Superior Court of the State of Delaware, naming Glen Alden as a defendant. The complaint alleges, in essence, that Glen Alden increased its offer to the public stockholders of Schenley as a result of the prior actions instituted by Mr. Miller, and that the making of the tender offer to said stockholders and distribution pursuant thereto improperly prevented plaintiffs from obtaining attorneys' fees from the stockholders allegedly benefited. The complaint seeks recovery of attorneys' fees for the result allegedly achieved for Schenley stockholders in the amount of $1,625,000.

Four actions have been instituted by Alexander Kahan, representatively on behalf of the Schenley Common Stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about April 1, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about April 1, 1968), one in the United States District Court, Southern District of New York (instituted on or about March 27, 1968), and one in the United States District Court, District of Delaware (instituted on or about March 28, 1968). The two New York actions are also brought derivatively on behalf of Schenley. The defendants are Glen Alden, the then directors of Schenley, the Dorothy H. and Lewis Rosenstiel Foundation and Meshulam Riklis; Schenley is also a defendant in the two Kahan New York cases. The allegations of the complaints are, in essence, that (a) Glen Alden paid Mr. Rosenstiel a premium for his shares of Schenley Common Stock (which premium includes certain payments made by Glen Alden to Joseph Lubin and Jack Rosen in connection with the transactions involving Schenley Common Stock), (b) Glen Alden made certain false and misleading statements (including omissions to state material facts) with respect to the transactions contemplated by the Stock Purchase Agreement, and (c) the defendants deprived Schenley's stockholders of the opportunity to sell their shares on terms equal or comparable to those received by Mr. Rosenstiel, or on terms more favorable than those

specified in the Exchange Offer. The complaints seek recovery of the alleged premium, recovery of the alleged consideration lost to Schenley's stockholders as a result of their being prevented from selling their stock on more favorable terms, an accounting by all defendants in connection with the described transactions and attorneys' fees. Plaintiff has conceded that by virtue of the terms of the Exchange Offer as consummated his basic claims have been rendered moot. However, he asserted, in the Delaware Federal case, in a petition to recover attorneys' fees, that the Exchange Offer was increased because of the actions he instituted and sought to recover attorneys' fees for the result allegedly thus procured in the amount of $8,300,000. Glen Alden and certain other defendants moved to dismiss plaintiff's petition, which motion was granted by the District Court. Plaintiff appealed to the United States Court of Appeals for the Third Circuit, which reversed the decision of the District Court, holding that plaintiff's pleadings stated a cause of action which might be the basis for an award of counsel fees, and remanding the case to the District Court for trial. A petition by Glen Alden and certain other defendants to the Supreme Court of the United States for a writ of certiorari was denied. Plaintiff in this case has moved to amend his petition for attorney's fees so as to request reimbursement for attorneys' fees incurred in litigating his claim for counsel fees.

In December of 1970, the Supreme Court of the State of New York, New York County granted consolidation of five actions previously pending in that Court, under the consolidated title *Sanders, et al. v. Riklis, et al.* The plaintiffs in the consolidated action are stockholders of Glen Alden, and the action is brought derivatively, on behalf of Glen Alden. The defendants, in addition to Glen Alden, are its directors at the time of the transactions alleged, McCrory, Rapid, Serge Semenenko, David G. Baird, Joseph Lubin, Jack Rosen, Fabian Enterprises, Inc., the estate of Samuel Rosen, the estate of Simon H. Fabian and Stanley Warner Corporation. Plaintiffs allege, in essence: (1) that Glen Alden paid an excessive price for the shares of Schenley Common Stock acquired pursuant to the Exchange Offer, consummation of said Exchange Offer placed Glen Alden in an unsound financial position, and the purpose of the Exchange Offer was to personally benefit Meshulam Riklis, Glen Alden's chief executive officer; (2) that Glen Alden sold International Latex & Chemical Corporation and several movie theatres at inadequate prices in order to alleviate financial pressures caused by the proposed Exchange Offer, and in order to benefit Mr. Riklis; (3) that an agreement by Glen Alden to pay David G. Baird $3,000,000 (who agreed to pay one-third of this amount to Serge Semenenko) for his services in connection with the purchase by Glen Alden of common stock of Stanley Warner Corporation was unlawful and without consideration, and was made in order to personally benefit Mr. Riklis; (4) that agreements by Glen Alden to pay Joseph Lubin $4,000,000 and Jack Rosen $1,000,000, respectively, for their services in connection with transactions involving Schenley Common Stock were unlawful since Mr. Lubin and Mr. Rosen did not render any services to Glen Alden for which they were entitled to compensation; (5) that Sol Kittay (then chairman of the executive committee of the board of directors of Glen Alden, acting for himself and his son), McCrory and Rapid purchased Schenley stock as a result of inside information as to whether Glen Alden would make the Exchange Offer, and as to the terms thereof, which information was not available to the public or to the public shareholders of Glen Alden, and that these defendants subsequently tendered their Schenley stock to Glen Alden to their own profit, all in violation of their fiduciary responsibilities to Glen Alden; and (6) that Glen Alden agreed to pay an excessive price for shares of stock of Stanley Warner Corporation acquired by it from Fabian Enterprises, Inc. and pursuant to a merger agreement with Warner, and that non-competition agreements to pay Simon H. Fabian and Samuel Rosen $42,000 a year each for ten years in connection with the Warner transactions were without consideration and void. The demands for relief made by plaintiffs are an injunction against the consummation of the Schenley tender offer; the payment of all damages sustained by Glen Alden and all profits made by any of the other defendants; an injunction against the carrying out of the aforementioned agreements with Messrs. Baird, Semenenko, Lubin, Jack Rosen, Fabian and Samuel Rosen; the cancellation of these agreements and the return to Glen Alden of any monies already paid thereunder; that the Schenley stock purchased by Mr. Kittay, McCrory and Rapid be imposed with a trust and held for the benefit of Glen Alden, and that these three defendants be required to account to Glen Alden for all profits made by them by reason of their purchase of Schenley stock, exemplary damages, and costs and disbursements, including attorneys' and accountants' fees. As of the date hereof, a settlement (which is subject to Court approval) is pending in this consolidated action. The terms of the settlement

provide that the payments to be made by Glen Alden to Mr. Baird and Mr. Semenenko will be reduced by $225,000; that Mr. Lubin will return $60,000 to Glen Alden and that the payments to be made by Glen Alden to him will be further reduced by $240,000; that the payments to be made by Glen Alden to Jack Rosen will be reduced by $75,000; and that all other claims will be dismissed on the merits.

On or about May 2, 1968, an action was instituted in the Court of Chancery of the State of Delaware by Mollie H. Sanders, Anne J. Mathes and Harry Lewis, stockholders of Glen Alden, allegedly on behalf of Glen Alden. The defendants are essentially the same as those in the consolidated *Sanders* action described above. The complaint, in essence, makes the same allegations as are made in the consolidated *Sanders* action, and seeks the same relief as in that action.

On or about June 7, 1968, an action was instituted by William B. Weinberger, in the United States District Court, Southern District of New York, allegedly on behalf of Glen Alden, and representatively on behalf of its stockholders. The defendants are essentially the same as those in the consolidated *Sanders* action described above, and the complaint, in essence, makes the same allegations as are made in the consolidated *Sanders* action, and seeks the same relief as in that action.

In or about November of 1970, David Warsaw, Anne Warsaw, Sally Shiner Spivak, W. Spivak, and Stewart Spivak, alleged shareholders of Glen Alden and/or holders of warrants of Rapid, filed a complaint in the Superior Court of the State of California for the County of Los Angeles, allegedly derivatively on behalf of Glen Alden and double-derivatively on behalf of Rapid, McCrory, Philip Carey Corporation, Playtex, Schenley, B.V.D., Swift Textiles, Inc., ILC, RKO-Stanley Warner Theatres, Inc. and Lerner Stores Corporation. The defendants named, in addition to the aforesaid corporations, include various directors or former directors of Glen Alden, Rapid and McCrory, and certain recipients of payments under Rapid's Key Executives' Stock Bonus Plan. The complaint alleges, in essence: (1) that the Key Executives' Stock Bonus Plans of Glen Alden, McCrory and Rapid, and the assignment of shares of stock under these plans to various of the defendants, constitute a waste of assets of these corporations; (2) that Meshulam Riklis, chairman of the board of Glen Alden, and Isidore A. Becker, vice-chairman of the board, draw excessive salaries from Glen Alden and from other related corporations, that Mr. Riklis has spent little or no time in pursuit of the valid objects of corporate business and has caused the corporate defendants to enter into transactions benefiting members of his family, and that various individual defendants have used corporate aircraft for private purposes; (3) that Mr. Riklis promised, at the time Glen Alden acquired Schenley, that Glen Alden would declare a stock dividend to its shareholders, but failed to do so although his salary and the salaries of other officers have been increased; (4) that alleged agreements by Glen Alden to pay $6,000,000 in finders' fees in connection with transactions relating to Schenley were fraudulent and unnecessary; (5) that the salary being received by Samuel Neaman as president of McCrory is excessive; and (6) that Glen Alden's contributory retirement plans provide for excess payments. The complaint seeks an accounting by the individual defendants of their alleged profits and the alleged losses of the corporate defendants; an injunction against the corporate defendants from putting into effect their Key Executives' Stock Bonus Plans and pension plans; punitive damages in the amount of $5,000,000, and attorneys' fees in the amount of $500,000. In April 1971, the court granted a motion by Glen Alden to quash service of process on the ground that the court lacked personal jurisdiction over it, and also granted a motion to dismiss the complaint in the action on the ground that California is an inconvenient forum. As of the date hereof, the time for appeal has not yet expired.

On or about August 28, 1968, two actions were instituted by Penn Mart Realty Company, an alleged stockholder of Glen Alden, allegedly on its behalf, one in the United States District Court, Southern District of New York, and one in the Court of Chancery of the State of Delaware. The defendants in each action are Glen Alden, its then directors, Investors Diversified Services, Inc., Investors Variable Payment Fund, Inc., and Carter, Berlind & Weill, Inc. The complaints allege, in essence, that the directors of Glen Alden violated their fiduciary duties to Glen Alden by causing it to sell, in March 1968, certain shares of common stock of Schenley for a price less than the value of such shares, and less than the price Glen Alden would be called upon to pay for such shares if tendered pursuant to a tender offer to be made by Glen Alden to all holders of Schenley Common Stock. The complaints allege further that Glen Alden's directors divulged certain inside information, not available to the public or to its stockholders, to defendants Investors Diversified Services, Inc., Investors Variable Payment Fund, Inc., and Carter, Berlind & Weill, Inc., in connection with the aforesaid transaction. The complaints

seek an accounting by all defendants other than Glen Alden for all of their profits and all damages sustained by Glen Alden, and attorneys' and accountants' fees. Glen Alden has filed answers denying the material allegations of the complaints in these actions. In the action brought in the United States District Court, Southern District of New York, the Court, on June 9, 1969, granted a motion by Investors Diversified Services, Inc. to dismiss the complaint for failure to state a claim.

In September 1968 two actions were instituted by Charles P. Liboff, derivatively on behalf of Schenley and representatively on behalf of the stockholders of Schenley. One action was commenced in the United States District Court, Southern District of New York, and the other was commenced in the Supreme Court of the State of New York, County of New York. The defendants in each action are Glen Alden, Investors Diversified Services, Inc., Investors Variable Payment Fund, Inc., Carter, Berlind & Weill, Inc., Lewis S. Rosenstiel and Schenley. The complaints allege, in essence, that the defendants other than Schenley violated or participated in the violation of alleged fiduciary duties owing to Schenley by wrongfully disclosing certain material inside information relating to Schenley in connection with the sale by Glen Alden in March 1968 of certain shares of Schenley Common Stock to Investors Variable Payment Fund, Inc. The complaints seek an accounting by all defendants other than Schenley for their profits and for all damages sustained by Schenley, and attorneys' and accountants' fees. Glen Alden has filed answers denying the material allegations of the complaints in these actions.

Management of Glen Alden believes that Glen Alden has a meritorious defense to each of these actions instituted by Schenley or Glen Alden stockholders, and, in the opinion of Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden, based upon the facts as presently known to them, to the extent that liability is asserted against Glen Alden, either on its own behalf or as an indemnitor, Glen Alden has a meritorious defense to each of the actions instituted by Schenley or Glen Alden stockholders described above.

In February 1970, indictments were handed up by a grand jury in Luzerne County, Pennsylvania, against Glen Alden, a former officer, a former employee and others, accusing them of mining coal so as to cause a subsidence of streets and buildings, failing to observe various provisions of Pennsylvania law governing mining procedures, and conspiring to violate Pennsylvania law in these respects. Management of Glen Alden believes that Glen Alden has meritorious defenses to the charges which have been made. In the opinion of Fried, Frank, Harris, Shriver & Jacobson, based on the facts as presently known to them, Glen Alden has meritorious defenses to these charges.

On October 6, 1969, an action was instituted by Joseph Gottlieb, derivatively on behalf of Briggs Manufacturing Company (now named Panacon) against Glen Alden, Briggs, Mr. S. A. Spencer and a former director of Briggs, in the United States District Court for the Eastern District of Michigan seeking to enjoin the then proposed merger of Philip Carey and Briggs. The complaint also seeks an accounting and an award for costs, including reasonable counsel and accountants' fees. The complaint alleges that Glen Alden selected persons of its choosing as the directors and executive officers of Briggs and that Glen Alden thereby "dominated and controlled Briggs" during the period from January 1, 1969, through the date of the complaint (October 6, 1969). The complaint further alleges (i) that on or about October 1, 1969 "Briggs was caused to agree to acquire from Glen Alden all of the outstanding shares of Philip Carey in exchange for 12,000,000 Briggs shares which at that date had a market value of $6 per share," (ii) that "the purchase price of $72,000,000 payable in Briggs shares amounts to more than 15 times Carey's 1968 net profits", and (iii) that "such price is excessive and unreasonable and was fixed solely to enrich Glen Alden at the expense of Briggs and its shareholders". As of the date hereof, Glen Alden had not been served with a copy of the complaint, and none of the defendants had filed any answers thereto.

In 1966 Briggs and virtually every other domestic vitreous china plumbing fixture manufacturer were indicted for alleged violations of Section 1 of the Sherman Antitrust Act. Without admitting the validity of these charges, Briggs has pleaded nolo contendere to these charges and has consented to the entry of a judgment in a related civil suit brought by the Department of Justice enjoining it from violating the Act in the future. Beginning in December 1966, a great number of private civil actions have also been commenced by certain plaintiffs against the corporate defendants (including Briggs) named in the above indictments in various federal district courts, some of which are alleged to be class actions. Pursuant to an order of the judicial panel on multidistrict litigation these cases have been consolidated for pre-trial proceedings in the Eastern District of Pennsylvania. All of the plaintiffs in the private civil actions claim

treble damages for unspecified amounts based upon the alleged violations charged in the above-mentioned indictments.

In May 1970, an action was instituted in the Supreme Court of the State of New York, entitled *The Purdue Frederick Company* v. *International Playtex Corporation.* This action alleges five causes of action arising from two agreements whereby Playtex sold to plaintiff the stock of Physicians Products Co., Inc. and certain products manufactured and distributed by Playtex: (i) false representations and breach of warranty with respect to the accounting records of Physicians Products Co., Inc ; (ii) certain pharmaceutical products of Physicians Products Co., Inc. were removed from the market because of defendant's failure to provide proper assays; (iii) certain of the pharmaceutical products of Physicians Products Co., Inc. did not have the represented stability and shelf life; (iv) misstatements of the cost of goods sold of the products sold by defendant to plaintiff; and (v) inventory delivered to plaintiff was less than warranted. The complaint seeks damages on all five causes of action in the total amount of $1,415,782.93, with interest.

Various other legal proceedings are pending by and against Glen Alden and its subsidiaries involving miscellaneous causes of action arising from their businesses. Glen Alden considers that the final disposition of these proceedings will not involve recoveries against it in amounts which are material in relation to its consolidated financial position. See "History and Business of Schenley—Litigation" for certain additional litigation relating to Schenley.

## HISTORY AND BUSINESS OF SCHENLEY

Schenley was incorporated in Delaware on July 13, 1933 under the name Schenley Distillers Corporation. Its name was changed to Schenley Industries, Inc. on January 4, 1949. Its executive offices are located at 888 Seventh Avenue, New York, N. Y. 10019. The term "Schenley", as used in this section, includes Schenley Industries, Inc. and its active subsidiaries and affiliates, except as the context otherwise requires.

Schenley is engaged in the production, importation and sale of alcoholic products for beverage purposes, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties. It is also engaged in various related activities such as the production and sale of cooperage and farm feeds, which in the aggregate are not significant in relation to its overall business.

**Recent Developments**

Schenley is subject to an antitrust consent decree pursuant to which Schenley, on May 10, 1971, divested itself of its 100% stock interest in Buckingham to Northwest Industries, Inc. ("Northwest"). The decree prohibits Schenley, for a period of 10 years, from acquiring from any other company, without Department of Justice or court approval, any rights to import and sell or produce and sell any brand of Scotch whisky other than a brand of Scotch whisky produced by or for John Dewar & Sons, Limited and from acquiring, without Department of Justice or court approval, any stock, assets or other financial interest in any company (other than Schenley's subsidiary, Seager Evans & Co., Ltd.* or any of its subsidiaries) which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States.

Buckingham imports and sells *Cutty Sark* Scotch whisky (and certain other alcoholic beverages, the aggregate sales of which are insignificant) in the United States under a contract expiring on January 1, 2000. On May 10, 1971, Schenley sold its 100% stock interest in Buckingham to Northwest for a price of $120,000,000, consisting of $103,000,000 in cash and $17,000,000 principal amount of 9½% notes of Northwest maturing March 1, 1979. The purchase price is subject to reduction after December 31, 1975 by reason of Schenley's guarantee of a specified amount of "depletions" (i.e., case sales by wholesalers to retailers) of *Cutty Sark* Scotch whisky and other Buckingham products during the five years ending December 31, 1975. In connection with the sale, Schenley and Glen Alden guaranteed $23,000,000 principal amount of Northwest 9½% notes maturing March 1, 1986 which were simultaneously sold by Northwest to three insurance companies at their principal amount to finance part of the cash portion of the purchase price. Schenley's and Glen Alden's guarantee will also apply to the $17,000,000 of Northwest notes acquired by Schenley in the event Schenley sells such notes. Schenley intends to endeavor to sell all or part of such notes at their principal amount to one or more financial institutions. However, there can be no assurance that it will succeed in doing so.

* Name changed, effective April 21, 1971, to Long John International Ltd.; referred to herein as Seager Evans & Co., Ltd.

The $40,000,000 aggregate principal amount of notes acquired by Schenley or guaranteed by Schenley and Glen Alden are subordinated in right of payment to $80,000,000 of long-term notes of Northwest issued to certain banks in connection with Northwest's purchase of Buckingham and are secured by a pledge of all of the stock of Buckingham, which pledge is subject to a prior pledge of such stock to secure the $80,000,000 of Northwest's notes issued to banks. As between Schenley and Glen Alden, Schenley is primarily liable on the guarantee.

For services rendered in connection with the sale of Buckingham, the investment banking firm of Cantor, Fitzgerald & Co., Inc. is to receive a fee of $750,000 from Schenley. Said investment banking firm was one of three dealer managers for Glen Alden in connection with its Exchange Offer to holders of Schenley Common Stock in August 1968 and has also on other occasions rendered investment banking services to Glen Alden and its affiliated corporations. George V. Delson, a director of Rapid, is Executive Vice President of Cantor, Fitzgerald & Co., Inc.

The following summarizes the Schenley statement of consolidated income for the year ended December 31, 1970 and a pro forma statement of such income adjusted to give effect to the sale of Buckingham for $120,000,000 as if such sale had occurred as at January 1, 1970. The pro forma statement of income assumes that (a) all of the $17,000,000 of Northwest notes acquired by Schenley were sold at January 1, 1970 at face amount; (b) $12,500,000 of the proceeds were used to prepay at January 1, 1970 the then outstanding Schenley 3% notes payable to insurance companies, which are required by their terms to be prepaid out of the proceeds of sale; (c) approximately $13,100,000 of the proceeds were used to pay estimated income taxes arising from the sale and $1,000,000 was provided for estimated fees in connection with the transaction, an aggregate of $14,100,000; and (d) the balance of the proceeds of sale were applied as at January 1, 1970 to the reduction of Schenley's short-term debt with commensurate adjustment in interest expense and related estimated income taxes. The assumption made in (d) above is solely for the purpose of indicating the effect of the sale on Schenley's statement of consolidated income and is not intended as a representation that the proceeds of sale will be applied to reduce Schenley's short-term debt. As is discussed above under "Certain Significant Aspects of the Proposed Reorganization", upon the consummation of the proposed reorganization a substantial portion of the proceeds of the sale of Buckingham will be transferred to Glen Alden.

| | (In Thousands) | | | |
|---|---|---|---|---|
| | | Sale of Buckingham | | |
| | Schenley Year Ended December 31, 1970 | Buckingham Year Ended December 31, 1970 | Adjustments* | Pro Forma |
| Revenues | $671,821 | $60,093 | — | $611,728 |
| Cost of goods sold | 525,353 | 38,390 | — | 486,963 |
| Selling, advertising and administrative expenses | 82,223 | 4,396 | — | 77,827 |
| Interest charges—net | 12,912 | — | $(8,040) | 4,872 |
| Provision for Federal taxes on income | 24,150 | 8,597 | 3,970 | 19,523 |
| | 644,638 | 51,383 | (4,070) | 589,185 |
| Income before extraordinary gain | $ 27,183 | $ 8,710 | $4,070 | 22,543 |
| Extraordinary gain—on sale of The Buckingham Corporation (net of applicable income taxes of $13,100,000) | | | | 71,130 |
| Net income | | | | $ 93,673 |
| Primary earnings per share of common stock: | | | | |
| Income before extraordinary gain | $3.01 | | | $ 2.42 |
| Extraordinary gain | — | | | 8.99 |
| Net income | $3.01 | | | $11.41 |
| Diluted earnings per share of common stock: | | | | |
| Income before extraordinary gain | $2.64 | | | $ 2.18 |
| Extraordinary gain | — | | | 6.92 |
| Net income | $2.64 | | | $ 9.10 |

* Reflects reduction in interest of $365,000 on 3% notes payable to insurance companies and $7,675,000 on short-term debt at Schenley's average interest cost on short-term debt during 1970 and related estimated income taxes.

The following sets forth a summary of Schenley's consolidated balance sheet at December 31, 1970 adjusted to give effect to the sale of Buckingham as if such sale had occurred as at December 31, 1970. Solely for purposes of showing the pro forma effect of the sale of Buckingham on Schenley's consolidated balance sheet, the pro forma statement assumes that (a) all of the $17,000,000 of Northwest notes acquired by Schenley were sold at December 31, 1970 at face amount; (b) $10,500,000 of the proceeds of sale were used to prepay at December 31, 1970 the then outstanding Schenley 3% notes payable to insurance companies ($2,000,000 due currently); (c) approximately $13,100,000 of the proceeds were used to pay estimated income taxes arising from the sale and $1,000,000 was provided for estimated fees in connection with the transaction, an aggregate of $14,100,000; (d) the $95,400,000 balance of the proceeds of sale was retained as cash; and (e) a reserve for possible liability under Schenley's guarantee of depletions (i.e. case sales by wholesalers to retailers) of *Cutty Sark* Scotch whisky and other Buckingham products for the five years ending December 31, 1975 was reflected in the amount of $3,500,000 (which amount is approximately the payment which would be required if Buckingham's depletions during the guarantee period were equivalent to the depletions of Buckingham's products during 1970).

ASSETS

| | (In Thousands) | | | |
|---|---|---|---|---|
| | | Sale of Buckingham | | |
| | Schenley December 31, 1970 | Buckingham December 31, 1970(a) | Adjustments | Pro Forma |
| Current assets | $500,818 | $18,755 | $120,000<br>(10,500)<br>(14,100) | $577,463 |
| Investments | 42,596 | 779 | — | 41,817 |
| Plant and property—net | 49,565 | 92 | — | 49,473 |
| Other assets | 21,394 | 1,078 | (16,270) (b) | 4,046 |
| | $614,373 | $20,704 | $79,130 | $672,799 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Current liabilities | $178,235 | $ 4,387 | $(2,000) | $171,848 |
| Long-term debt | 80,000 | — | (8,500) | 71,500 |
| Deferred taxes and other liabilities | 9,743 | 1,317 | 3,500 | 11,926 |
| Shareholders' equity | 346,395 | 15,000 | 71,130(c)<br>15,000(c) | 417,525 |
| | $614,373 | $20,704 | $79,130 | $672,799 |
| Book value per share | $35.48 | | | $44.38 |
| Diluted book value per share, assuming full conversion of $1.40 Preferred Stock | $33.52 | | | $40.44 |

(a) Adjusted to reflect reduction of net worth to $15,000,000, the amount of guaranteed net worth pursuant to the terms of the sale.

(b) Represents elimination of goodwill arising upon Schenley's initial acquisition of 52.66% interest in Buckingham in August 1964.

(c) Represents (i) extraordinary gain of $71,130,000 arising from sale of Buckingham and (ii) guaranteed net worth of Buckingham of $15,000,000.

On February 26, 1971, Schenley sold to Guild Wine Company for $14,000,000 (consisting of cash and irrevocable letters of credit payable not later than November 25, 1971), subject to adjustment, certain assets connected with its wine business, including inventories of wines, certain vineyards and winery facilities and trademarks for wine products, the disposition of which will not significantly affect the results of Schenley's operations. No effect has been given to this sale in the above statements.

**Products**

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

*Domestic Alcoholic Beverages*—Brands of domestic whiskies owned by Schenley include *Ancient Age, J. W. Dant, I. W. Harper* and *Old Charter* bourbon whiskies; *Melrose, Park & Tilford, Schenley Reserve* and *XL* blended whiskies; and *George Dickel* Tennessee whisky. Schenley owns numerous other brands of domestic gins, brandies (including *Coronet*), vodkas (including *Samovar*), cordials, prepared

cocktails and other domestic spirit beverages. Schenley owns the *Dubonnet* brand in the United States and owns and distributes *Ron Carioca* Puerto Rican rum.

*Imported Alcoholic Beverages*—Brands of imported beverages owned by Schenley include *Long John* and *Park & Tilford* Scotch whiskies; *Grande Canadian, MacNaughton* and *OFC* Canadian whiskies; *Plymouth* and *Seager's* gins; as well as other brands of rum, gin, brandy, liqueur, tequila and wine. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include *Dewar's White Label* Scotch whisky; *Otard* cognac; *Mateus* wines; and the *Stock* line of vermouth, brandy, liqueurs and other products. *Dewar's White Label* Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936 and the latest of which extends to April 1973. Agreements with respect to other distribution rights expire at various dates from June 30, 1971 through April 30, 1990.

The following table sets forth the approximate percentage of total case sales, excluding sales outside the United States and Canada, represented by the various principal categories of alcoholic beverages sold by Schenley during the three fiscal years ended August 31, 1968 and the two years ended December 31, 1970. Each such principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies generally are higher than on the sale of its other products.

| | Year Ended August 31, | | | Year Ended December 31, | |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 | 1970 |
| Straight whiskies | 29.9% | 32.0% | 34.1% | 36.6% | 29.3% |
| Scotch whiskies(1) | 19.2 | 19.6 | 19.6 | 22.3 | 21.1 |
| Canadian whiskies | 8.4 | 10.6 | 11.3 | 8.3 | 14.9 |
| Blended whiskies | 11.5 | 10.5 | 8.6 | 7.9 | 7.2 |
| Wines | 18.1 | 14.8 | 14.1 | 11.7 | 12.2 |
| Other(2) | 12.9 | 12.5 | 12.3 | 13.2 | 15.3 |

(1) All sales of Buckingham are included. Excluding Buckingham, 1970 case sales were: straight whiskies, 32.3%; Scotch whiskies, 13.2%; Canadian whiskies, 16.4%; blended whiskies, 7.9%; wines, 13.4%; and other 16.8%.

(2) Gins, vodkas, rums, brandies, cocktails, cordials, etc.

As used in the foregoing table and elsewhere herein, the term "case sales" includes bottled goods, and also bulk sales of alcoholic beverages on the basis of an average of 2.3 proof gallons to the case as to distilled spirits, and an average of 3 wine gallons to the case as to wines.

**Distribution and Marketing**

In the domestic market, 18 states have established liquor distribution systems under which sales of alcoholic beverages are made directly through state liquor control boards and commissions. Schenley sells to all of these states. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers, and in certain markets through Schenley's wholly-owned wholesalers.

In the year ended December 31, 1970 no wholesale distributor accounted for more than 2.1% and no state control board accounted for more than 3.1% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its alcoholic beverage products extensively, using various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to close regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley utilizes three independent advertising agencies, and also places outdoor advertising through an agency owned by it. Under Schenley's advertising programs for 1970 its expenditures for advertising were increased and continued to be heavily concentrated on the major brands marketed by Schenley.

**Foreign Operations**

Schenley owns 75% of the outstanding capital stock of Seager Evans & Co., Ltd., a British distilling corporation, and has wholly-owned affiliates in Canada, namely, Canadian Schenley Distilleries, Ltd., and Canadian Park & Tilford Distilleries, Ltd. Reference is made to "Imported Alcoholic Beverages" above for the brands produced by these affiliates and to "Properties" below for the plants and property owned by these affiliates.

Schenley maintains sales organizations in eleven countries outside of the United States. Sales in foreign markets would account for approximately 6.6% of total dollar sales for the year ended December 31, 1970 on the basis of inclusion of the sales in those markets of Seager Evans & Co., Ltd. attributable to Schenley's ownership interest.

Major trademarks of Schenley are registered in important countries of the world. Trademark licensing agreements are in effect with customers in 27 foreign countries, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 15 foreign countries on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley.

Foreign sales of Schenley or revenues derived from customers in foreign countries are not material. However, as is indicated above under "Products", a substantial portion of Schenley's domestic sales are of imported products, principally Scotch and Canadian whiskies.

**Competition**

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies.

**Inventories and Raw Materials**

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As as result, inventories in the industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future. Schenley purchases bulk whiskies from, and from time to time sells bulk whiskies to, others.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains and the other materials from numerous sources. Schenley produces its own barrels, purchasing the rough staves and headings used in their production, and sells barrels to other distillers and users.

Since Schenley's basic raw materials are agricultural products, prices and costs are subject to the usual influences on that market, including climate, governmental production and marketing controls and price supports. The markets for these raw materials are competitive and there are many suppliers. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

**Regulation and Taxation**

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. In recent years several states, led by Kansas and New York, have adopted laws or regulations requiring distillers to affirm that prices charged

in the state are no higher than corresponding prices charged in other states. States in which alcoholic beverages are distributed through state agencies have for many years required suppliers to make warranties of a like tenor. Several states regulate the mark-up which may be made in prices at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships by local option to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in Canada and other countries.

The products sold by Schenley are subject to a Federal excise tax on distilled spirits of $10.50 per proof gallon ($10.80 per proof gallon on rectified products), varying Federal customs duties on imports, the most important of which, in relation to Schenley's products, are duties of $.61 per wine gallon on Scotch whiskies and $.75 per wine gallon on Canadian whiskies, and other excise taxes, the most important of which are state gallonage taxes varying in amount from $1.50 to $5.60 per wine gallon.

**Employees**

Schenley currently employs approximately 5,800 people regularly in the United States and Canada. There are approximately 780 employees in countries other than the United States and Canada.

Schenley has contracts with a number of labor unions, expiring at various dates through October 31, 1973 covering classes of non-executive employees. During recent years Schenley has granted wage increases from time to time. No single increase has been substantial in relation to total wages paid.

Schenley maintains pension plans and other benefit plans for its employees, some of which are contributory and some of which are non-contributory, and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no major work stoppages in recent years that are material to Schenley's overall business.

**Properties**

Schenley operates 22 plants for the production of alcoholic beverages, including 10 plants of Seager Evans & Co., Ltd. These plants have an aggregate daily distilling capacity of approximately 232,000 proof gallons of whiskey or distilled spirits; facilities for bottling under normal conditions an aggregate of approximately 80,000 standard cases of product in an 8 hour day; and storage facilities for a total of approximately 4,050,000 barrels of aged and aging distilled spirits.

Schenley has 6 warehousing plants, some of which have distilling equipment, containing storage space for a total of approximately 1,[illegible]000 barrels. In addition, Schenley has 9 inactive plants, some of which have distilling equipment, containing storage space for a total of approximately 475,000 barrels.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana, Frankfort and Louisville, Kentucky, Schenley, Pennsylvania, Tullahoma, Tennessee, and Fresno, California. In Canada, Schenley subsidiaries own distilleries at Valleyfield, Quebec and North Vancouver, British Columbia. Cooperage plants are located at Louisville, Kentucky and Monroe, Louisiana. Schenley has plants for the distillation of rum in Puerto Rico and the Virgin Islands.

Except for one of its warehousing plants, all of Schenley's distilleries and plants are owned in fee. The plants are generally of sound construction and adequately equipped for carrying on Schenley's business, and, except for the inactive plants referred to above, are in good operating condition.

**Litigation**

In September 1968, an action was instituted in the United States District Court for the Southern District of New York by Miriam Wolf, on behalf of all holders of Schenley who sold their stock in whole or in part between February 1, 1968 and March 20, 1968. The defendants named are Schenley, Lewis S. Rosenstiel and Meshulam Riklis, and the complaint alleges, in essence, that the defendants, during the period between February 1, 1968, and March 20, 1968, failed to disclose the status of the

negotiations between Glen Alden and Rosenstiel which led to the Stock Purchase Agreement between them; that Rosenstiel and Riklis improperly disclosed information to certain persons and organizations who thereby were able to make substantial profits by purchasing Schenley stock; and that on or about March 15, 1968, the defendants caused Glen Alden falsely to announce that there was no certainty that it would acquire Schenley, although they knew that the transaction between Glen Alden and Rosenstiel had already been agreed to. The complaint seeks recovery of the damages allegedly sustained by plaintiff and the class she purportedly represents, together with exemplary damages, and attorneys' and accountants' fees. Schenley and Mr. Riklis have filed answers denying the material allegations of the complaint in this action. Indemnification has been claimed by Mr. Rosenstiel from Glen Alden under the provisions of the stock purchase agreement between Mr. Rosenstiel and Glen Alden.

On May 9, 1969, an action was instituted by Max Eisenberg suing on behalf of himself and all other stockholders of Buckingham similarly situated against Buckingham, its officers and directors, Schenley and Glen Alden in the Supreme Court of the State of New York, New York County. The complaint sought to enjoin the defendants from permitting a vote upon the adoption of the reorganization plan under which Buckingham became a wholly-owned subsidiary of BHM Industries, Inc. and from carrying such plan into effect. On May 14, 1969 a motion for a preliminary injunction in such action was denied by the Court, and on May 29, 1969 Buckingham filed its answer in such action denying the material allegations of the complaint and alleging two affirmative defenses.

On June 10, 1969, a second action was instituted in the Supreme Court of the State of New York by Mr. Eisenberg on behalf of himself and all other stockholders of Buckingham similarly situated. This action names as defendants, BHM, its officers and directors, and Schenley. The complaint alleges that the consummation of the reorganization plan wrongfully converted and misappropriated plaintiffs' stock in Buckingham and seeks to enjoin BHM from selling any stock of Buckingham. On June 25, 1969 BHM filed its answer in such action denying the material allegations of the complaint and alleging three affirmative defenses.

On July 2, 1969 Schenley was served with the summons and complaint in both Eisenberg actions, and on July 21, 1969 Schenley filed answers in both actions denying the material allegations of the complaint and alleging affirmative defenses. On June 30, 1969 plaintiff moved in both actions for summary judgment declaring the reorganization plan illegal and void and directing BHM to return to the stockholders of Buckingham the stock owned by them on May 15, 1969 and for an order enjoining Schenley from acquiring any additional shares of BHM. Such motions were denied by the Court on August 4, 1969. Thereafter plaintiff moved for reargument of his motions and requested an injunction against the merger of Schenley and BHM pending the Court's decision. Defendants then cross-moved for summary judgment dismissing the complaints. Defendants' cross-motion for summary judgment was granted on September 9, 1969. Plaintiff has filed notices of appeal from the orders dismissing his complaint.

To the extent to which money damages are sought against Schenley in any of these actions, it is the opinion of Fried, Frank, Harris, Shriver & Jacobson, which is acting for Schenley in these actions, based upon the facts presently available to them, that Schenley has substantial defenses to the actions described above.

Schenley is also named as a defendant in the *Warsaw* action, described above under "History and Business of Glen Alden—Litigation".

On or about December 11, 1970 Schenley Affiliated Brands Corporation and Schenley Distillers, Inc., subsidiaries of Schenley, together with another distilling corporation and wholesalers of alcoholic beverages in California brought an action in the Superior Court of the State of California in and for the County of Sacramento against Edward J. Kirby as Director of the Department of Alcoholic Beverage Control of California and against the Department, alleging that Rule 100, as amended, promulgated by the Department constituted an unlawful attempt, beyond the power of the Department, to regulate the kinds of discounts a licensee may offer. Plaintiffs have asked that amended Rule 100 be declared void and unenforceable and that the defendants be enjoined from enforcing said Rule. Prior to the amendment of Rule 100, it was permissible for wholesalers in the State of California to file with their

prices to retailers any type of discount determined by the manufacturer or wholesaler. The rule as amended would limit the flexibility of the type of discount to be offered to retailers by wholesalers and would tend to favor brands which are established sellers in the market to the detriment of brands seeking to improve their position in the market. The Superior Court has denied a Temporary Restraining Order on the grounds that it has no jurisdiction of the case, and plaintiffs have petitioned the District Court of Appeal of the State of California in and for the City and County of Sacramento, Third Appellate District, asking that Court either to assert original jurisdiction of the matter or, in the alternative, to issue a Writ of Mandate compelling the Superior Court to assert jurisdiction.

On or about August 19, 1968, an action was commenced in the United States District Court for the Southern District of New York by Nathaniel Kornreich, an alleged owner of shares of Schenley who purports to bring this action on behalf of himself and all other shareholders of Schenley similarly situated and on behalf of Schenley. The defendants, in addition to Schenley, are McCrory, Rapid, Sol Kittay (the then Chairman of the Executive Committee of Glen Alden) and his son Jeffrey Kittay. The complaint alleges, in essence, that (i) the defendants, other than Schenley, purchased an aggregate of 916,950 shares of the Common Stock (over 10% of the total issued and outstanding shares) of Schenley between April 1, 1968 and April 24, 1968 for the purpose of advancing their common interest in Glen Alden and as part of a plan and scheme to bolster the position of Glen Alden with respect to Schenley Common Stock and (ii) on or about August 8, 1968, the defendants, other than Schenley, tendered the aforesaid shares of Schenley to Glen Alden pursuant to Glen Alden's Exchange Offer, dated August 8, 1968, for shares of Schenley's Common Stock, thus realizing a profit, which profit was not recovered by, and is now payable to, Schenley by virtue of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The relief requested is that the defendants, other than Schenley, account to Schenley for all profits realized by them from the purchase and sale of the aforesaid shares of the Schenley Common Stock within the period of less than six months during the year 1968 and thereupon pay over to Schenley the profits so realized, with interest, together with costs and disbursements.

On or about September 20, 1968, Schenley was served with a summons and complaint in an action instituted in the United States District Court, Southern District of New York, by Irving Miller, an alleged stockholder of Schenley who purports to bring this action on behalf of Schenley. The defendants, in addition to Schenley, are Rapid and McCrory. The complaint alleges, in essence, that (i) the defendants (Rapid and McCrory) and Glen Alden acted in concert and were collectively a person within the meaning of Section 16 of the Exchange Act with respect to their transactions in Schenley's Common Stock; (ii) by reason of Glen Alden's purchase of 1,417,689 shares of Schenley's Common Stock on or about March 20, 1968, Rapid and McCrory became the indirect beneficial owner of more than ten per cent of the outstanding Common Stock of Schenley; and (iii) said defendants purchased an aggregate of 813,250 shares of Schenley's Common Stock between April 1, 1968 and April 24, 1968 and, in or about August 1968 and within six months of the aforesaid purchases, sold, at a profit, the aforementioned shares of Schenley to Glen Alden pursuant to Glen Alden's Exchange Offer, dated August 8, 1968, which profits are recoverable by Schenley under Section 16(b) of the Exchange Act. The complaint seeks a judgment requiring that the defendants, other than Schenley, pay over to Schenley the amounts of their respective profits, plus any dividends received on Schenley's Common Stock with interest, together with costs and disbursements.

On or about October 31, 1968, an action was commenced in the United States District Court for the Southern District of New York by Isaac Fuchs, an alleged owner of shares of Schenley, who purports to bring this action on behalf of himself and all other stockholders of Schenley similarly situated and on behalf of Schenley. The defendants are the same as in the Kornreich action described above. The complaint alleges, in essence, that (i) the defendants, other than Schenley, purchased an aggregate of 916,950 shares of the Common Stock (over 10% of the total issued and outstanding shares) of Schenley between April 1, 1968 and April 24, 1968 for the purpose, among other things, of furthering their interest and investment in Glen Alden and as part of a plan and scheme to strengthen Glen Alden's control over Schenley and (ii) on or about August 30, 1968, within a six month period of the above purchases, the

defendants, other than Schenley, sold the aforesaid shares of Schenley's Common Stock to Glen Alden for cash and other property, thus realizing a profit, which profit was not recovered by and is now owing, with interest, to Schenley by virtue of the provisions of Section 16(b) of the Exchange Act. The complaint demands that judgment be entered in favor of Schenley against the other defendants for all profits realized by them from the purchase and sale of the aforesaid shares of Schenley's Common Stock within a six month period, with interest, together with costs and disbursements.

On November 29, 1968 the Kornreich, Miller and Fuchs cases immediately above described were consolidated with one another.

Various other legal proceedings are pending by and against Schenley or its subsidiaries involving miscellaneous causes of action arising from the business. Schenley considers that the final disposition of these proceedings will not involve recoveries against it in amounts which are material in relation to its consolidated financial position. See "History and Business of Glen Alden—Litigation" for certain additional litigation involving Schenley.

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## MANAGEMENT OF GLEN ALDEN

The following table sets forth for each of the present members of the Board of Directors of Glen Alden (1) his present principal occupation, (2) the year in which he first became a director of Glen Alden, (3) the number of shares of capital stock of each class of Glen Alden beneficially owned, directly or indirectly, as of March 1, 1971, as reported by him, and (4) his principal occupations during the last five years.

| Name | Served as a Director Since | Number of Shares of Glen Alden Common Stock Beneficially Owned on March 1, 1971(1) | Principal Occupation |
|---|---|---|---|
| Isidore A. Becker* | 1964 | 17,500 | Vice Chairman of the Board of Glen Alden; Chairman of the Board and Chief Executive Officer of Schenley since October, 1968; Vice Chairman of the Board and Financial Vice President of Rapid; Vice Chairman of the Board and Treasurer to May, 1970 and currently Vice Chairman of the Executive Committee and a director of McCrory. |
| Patrick J. Clifford | 1966 | 500 | Chairman of the Board and a director of Security National Bank. |
| Wentworth P. Johnson | 1954 | 2,625 | Financial consultant and a director of various corporations; formerly President, John B. Stetson Co., manufacturer of hats, shoes and shirts, and previous to that Senior Vice President and director of Fidelity Bank, Philadelphia, Pa. |
| Paul A. Johnston* | 1965 | 19,600 | President and Chief Operating Officer of Glen Alden; a director of Rapid since 1969, and of Schenley since 1968. |
| Leonard C. Lane* | 1964 | 17,500 | Vice Chairman of the Board of Glen Alden; Co-Chairman of the Executive Committee, Executive Vice President and a director of Rapid; a director of McCrory. |
| M. Lester Mendell | 1961 | 1,500 | A director of several corporations, formerly Vice-President, Bankers Trust Company. |
| D. Irving Obrow | 1969 | 10,000(2) | Vice President—Finance and Treasurer of Glen Alden since March 27, 1968, and for more than three years prior thereto an executive of Stanley Warner Corporation and its then subsidiary, International Latex Corporation (now a subsidiary of Glen Alden). |
| Meshulam Riklis* | 1964 | 22,500 | Chairman of the Board and Chief Executive Officer of Glen Alden; Chairman of the Board and President of Rapid; Vice Chairman of the Executive Committee and a director of McCrory. |

* Member of the Executive Committee.

(1) The following directors have reported the beneficial ownership on March 1, 1971 of the following equity securities of Rapid: Isidore A. Becker, 78,362 shares of Common Stock and 12,700 shares of $2.25 Cumulative Convertible Preferred Stock; Mr. Becker is the Trustee of a foundation which owns 1,000 shares of Common Stock. Leonard C. Lane, 114,721 shares of Common Stock, 2,920 shares of $2.25 Cumulative Convertible Preferred Stock, and $557,200 principal amount of 5¾% Convertible Subordinated Debentures; members of Mr. Lane's immediate family own 11,725 shares of Common Stock and $130,500 principal amount of 5¾% Convertible Subordinated Deben-

tures, as to all of which Mr. Lane disclaims beneficial ownership. Meshulam Riklis, 516,538 shares of Common Stock, and 24,558 shares of $2.25 Cumulative Convertible Preferred Stock; members of Mr. Riklis' immediate family, including trusts for the benefit of his children, own 30,058 shares of Common Stock, and $291,100 principal amount of 5¾% Convertible Subordinated Debentures, as to all of which Mr. Riklis disclaims beneficial ownership. Paul A. Johnston, 200 shares of Common Stock. Rapid-American Foundation, Inc., of which Messrs. Becker, Lane and Riklis are three of the five directors, owns 6,000 shares of Common Stock. The McCrory Foundation, Inc., of which Messrs. Becker, Lane and Riklis are three of the four directors, owns 6,230 shares of Common Stock. Otasco Employees Retirement Trust of which Mr. Riklis is one of five trustees owns $8,000 principal amount of 5¾% Convertible Subordinated Debentures, and 800 shares of Common Stock. RKO Foundation, of which Mr. Becker is one of four trustees, owns $10,000 principal amount of 5¾% Subordinated Convertible Debentures. Mr. Johnston also reports the ownership of 100 shares of Common Stock of Panacon Corporation, and Mr. Becker reports the ownership of 2,200 shares of Common Stock of ILC Industries, Inc.

(2) Also beneficially owns 1,320 shares of the Class B Senior Stock of Glen Alden.

**Remuneration**

The aggregate remuneration paid by Glen Alden and its subsidiaries with respect to the year 1970 for services in all capacities to (1) each director, and each of the three highest paid officers of Glen Alden, whose aggregate direct remuneration exceeded $30,000, and (2) all persons as a group who were directors or officers of Glen Alden, is set forth in the following table. Information has not been included for any portion of the year 1970 during which such person or persons did not hold such position. The amount set aside or accrued during 1970, and the aggregate amount set aside or accrued to date under applicable retirement plans is also shown.

| Name | Capacities in Which Remuneration was Received | Aggregate Remuneration (See Note A) | Amount set aside or accrued during the Corporation's last fiscal-year under Retirement Plans | Aggregate Amount Accrued to Date Under Retirement Plans |
|---|---|---|---|---|
| Meshulam Riklis | Chairman of the Board and Member of the Executive Committee | $ 102,083 | — | — |
| Isidore A. Becker | Vice Chairman of the Board and Member of the Executive Committee | 58,333 | — | — |
| Leonard C. Lane | Vice Chairman of the Board and Member of the Executive Committee | 160,836(5) | — | — |
| Paul A. Johnston | President, director and Member of the Executive Committee | 255,275(1) | — | — |
| Bernhard Denmark | Director, Member of the Executive Committee and Executive Vice President, and President of International Playtex Corporation | 205,000(2) | $28,389 | $302,827 |
| Nathaniel Lapkin | Senior Vice President | 208,000(3) | — | — |
| D. Irving Obrow | Director, Vice President—Finance and Treasurer. | 140,000(4) | 18,387 | 273,756 |
| All directors and officers as a group (27 persons, including the above) | | 2,409,738 | 66,722* | 643,928* |

* These figures do not include the sum of $11,208 credited during 1970 toward annual retirement benefits under retirement benefits plans of Glen Alden and subsidiaries for nine officers. Under such plans ten present officers, if employed until retirement age, will receive an average estimated annual benefit of $17,400 upon retirement.

NOTE A—Remuneration shown above does not include deferred compensation for the following executives accrued during the year ended December 31, 1970 under employment agreements: Leonard C. Lane $17,708, Paul A. Johnston $25,000; all directors and officers as a group $196,208. Such deferred compensation is payable to them in installments following termination of employment. The following executives were indebted to Glen Alden in an amount in excess of $10,000 at some time during the year ended December 31, 1970. The highest amount of such indebtedness outstanding during 1970 was: Meshulam Riklis, $16,875; Paul A. Johnston, $13,125; Leonard C. Lane, $13,125; Isidore A. Becker, $13,125; Nathaniel Lapkin, $11,250; Bernard Goldberg, $11,250. Said indebtedness consisted of the aggregate of a total of 4 equal installments to be paid to Glen Alden by each of the above named executives pursuant to the settlement of the litigation entitled *Rosenfeld vs. Becker, et al.*, relating to the Key Executives' Stock Bonus Plan and the Management Stock Bonus Plan. Currently all of said executives have paid Glen Alden the first 3 installments in accordance with the terms of the settlement (one has paid all four), and the final installment is due on or before January 31, 1972.

(1) Under an agreement effective January 1, 1970, Mr. Paul A. Johnston is engaged as President and chief operating officer and receives a base salary at the rate of not less than $210,000 per year for a term of five years, plus one percent of the consolidated income after taxes and before extraordinary items of Glen Alden over $20,000,000 as reported to stockholders, with a ceiling on total current compensation (consisting of the base salary plus the said one percent of consolidated income) of $400,000 per year, plus deferred compensation of $25,000 per year. Unless either Mr. Johnston or Glen Alden gives at least six (6) months' written notice of termination prior to January 1, 1975, the agreement is automatically extended for an additional five years. During the term of the agreement, Mr. Johnston may, if his duties or title are changed for any reason other than his willful misconduct, elect to terminate his full time employment with Glen Alden and become a part time employee thereof, compensated at the rate of one-third of the compensation provided for during his full time employment. As a part-time employee, Mr. Johnston would not be required to devote more than 30 days in any fiscal year to Glen Alden, such days to be determined by Mr. Johnston. If Mr. Johnston retires at the expiration of the initial five-year term, he will receive retirement benefits of $35,000 per year, and if after the expiration of three years of the five-year term, retirement benefits of $20,000 per year, less any amounts received under any pension plan of Glen Alden or any of its affiliates and further provided that Mr. Johnston is to be available for advisory services to Glen Alden in the Metropolitan New York area for not more than an aggregate of 12 business days a year. Upon Mr. Johnston's death, the said retirement benefits will continue to his surviving widow, if any, at the annual rate of 40% of the annual amount payable up to the time of death, to the earlier of (a) the fifth anniversary of Mr. Johnston's death, (b) the date on which Mr. Johnston would have attained the age of 68 years or (c) the death of his widow. Mr. Johnston has agreed that upon retirement and during his part time employment he will not compete, directly or indirectly, with Glen Alden. If, during the term of the agreement, Mr. Johnston becomes incapacitated to the extent that he is unable to perform his duties and if such incapacity shall continue until the termination of his employment, Glen Alden will pay to Mr. Johnston, commencing upon termination of his employment, an amount equal to 25% of his then base salary and 25% of his then deferred compensation, during the remaining portion of his life. If Mr. Johnston dies at any time during his employment by Glen Alden, Glen Alden will make payments to Mr. Johnston's wife in equal monthly installments over a period of 10 years in an aggregate annual amount equal to one-tenth of the year's total current compensation plus an amount equal to $33,492 if death occurs during the full-time employment of Mr. Johnston and $20,500 if death occurs during the part time period.

(2) Mr. Bernhardt Denmark resigned as a director, member of the executive committee, and Executive Vice President of Glen Alden effective February 23, 1971. Under an agreement dated September 17, 1970, all existing employment agreements, arrangements and understandings between Mr. Denmark and Glen Alden, its affiliates, parents or subsidiaries were terminated and his employment thereunder was deemed to come to an end at the close of business on February 28, 1971, including incentive compensation to which Mr. Denmark would otherwise have been entitled for the year 1970 and thereafter. Under said agreement Mr. Denmark agreed to be available for six years for advisory services to Glen Alden in the metropolitan New York area requiring not more than an aggregate of 12

business days a year. Mr. Denmark also agreed that for the period commencing with the date of the agreement and until February 28, 1977 he will not engage or be interested, directly or indirectly, or render any services or advice to anyone directly or indirectly engaged in any business that is directly or indirectly competitive with that of International Playtex Corporation, its subsidiaries, parents or affiliates, in the field of girdles, bras, baby pants, bibs, infants' nursers, tampons, tooth brushes, and/or household gloves, nor as to any other consumer products directly marketed or under development by International Playtex Corporation in any significant way as of September 17, 1970. Mr. Denmark further agreed that during the same period he will not cause the employment of any individual theretofore employed by Glen Alden, or its subsidiaries, parents or affiliates at any time during the period of two years prior to the date of such individual's employment by Mr. Denmark. In consideration for the foregoing, Glen Alden agreed to pay to Mr. Denmark or in the event of his death to his estate an aggregate of $600,000 payable in equal monthly installments as follows: for the 12 months ending February 29, 1972, $140,000; for the 12 months ending February 28, 1973, $120,000; for the 12 months ending February 28, 1974, $100,000; for the 12 months ending February 28, 1975, $80,000; for the 12 months ending February 29, 1976, $80,000; for the 12 months ending February 28, 1977, $80,000.

(3) A contract dated January 1, 1959, and since amended, provides, effective August 3, 1967 and until August 2, 1972, for the payment to Mr. Nathaniel Lapkin, Senior Vice President, of a salary of $3,750 per week, and a non-accountable expense allowance of $250 per week during active employment. It also provides for advisory services by Mr. Lapkin following termination of active employment, at a compensation of $1,000 per week for 520 weeks plus the period (the "Additional Period") equal to the aggregate of the number of weeks corresponding to the period of time during which Mr. Lapkin served as Chairman of the Executive Committee of Stanley Warner Corporation (July 26, 1966 to December 22, 1967) plus the number of weeks after December 22, 1967 corresponding to the period of time during which Mr. Lapkin performed services as a member of the Executive Committee of Glen Alden (December 22, 1967 to September 26, 1968) plus the number of weeks after September 26, 1968 corresponding to the period of time during which Mr. Lapkin performs services as an executive officer of Glen Alden. Upon Mr. Lapkin's death during the active employment period, his widow or his estate is to receive $500 per week for a period of 520 weeks plus the aforesaid Additional Period and if he should die during the advisory period, $500 per week for a period of 260 weeks plus the aforesaid Additional Period.

(4) Under a contract dated July 3, 1968, Mr. D. Irving Obrow was engaged by Glen Alden in a financial capacity for a term of five years commencing January 1, 1968, which, as modified, provides for a salary of $115,000 per year for the calendar year 1969, and $140,000 per year effective January 1, 1970. If Mr. Obrow's employment with Glen Alden continues substantially uninterrupted until at least December 31, 1977 then upon his attaining the age of 65 he will be entitled to receive pension payments at the rate of not less than $25,000 per year for the balance of his lifetime. If Glen Alden shall not have tendered to Mr. Obrow on or before December 31, 1972 a five year written renewal of the employment agreement, on terms no less favorable than the terms of the said contract of July 3, 1968, Mr. Obrow will receive from Glen Alden settlement payments of $15,000 per year for a period of five years commencing January 1, 1973. If Mr. Obrow dies at any time during his employment, Glen Alden has agreed to pay to the designee selected by, and related to, Mr. Obrow his full rate of base salary for the balance of the calendar month in which he dies plus 12 calendar months thereafter. If Mr. Obrow becomes incapacitated to the extent that he is unable to perform his duties and if such incapacity continues for at least six calendar months, Glen Alden after the end of such period and during the continuance of such incapacity shall have the right to terminate Mr. Obrow's employment on five days written notice. Upon such termination Glen Alden has agreed to pay to Mr. Obrow a total sum equal to his then annual base pay in equal monthly installments over the period remaining for his employment under the agreement, except that if termination is made within the last six months of the employment period, then the amount payable to Mr. Obrow shall be 50% of his then annual base salary.

(5) Under an agreement effective August 1, 1970, Mr. Leonard C. Lane was employed by Glen Alden in a senior executive capacity for a five-year term at a salary of $190,000 per year, plus deferred compensation of $42,500 per year. Unless either Mr. Lane or Glen Alden gives at least six months'

written notice of termination prior to August 1, 1975, the agreement is automatically extended for an additional period of five years. In the event that Mr. Lane shall, at any time during employment by Glen Alden, become incapacitated to the extent that he shall be unable to perform his duties, and if such incapacity shall continue until the termination of his employment, then Glen Alden will pay to Mr. Lane, commencing upon the termination of his employment, the sum of $56,250 per year, in equal monthly installments, such sum to be reduced by any compensation received by Mr. Lane for services in any other employment. If Mr. Lane is employed by Glen Alden for more than five years, he will be entitled to receive an annual retirement payment, in equal monthly installments, of $50,000 per year, and if less than five years at $35,000 per year, less any amounts received under any pension plan of Glen Alden or any of its divisions, subsidiaries or affiliates (including a parent corporation and subsidiaries of a parent corporation) for which Mr. Lane shall be eligible by reason of his employment by any of them. As a condition to such retirement payments, Mr. Lane must be available for advisory services to the extent permitted by his health for a period of not more than 12 business days a year. Mr. Lane forfeits his retirement benefits if, within one year after termination of employment, he engages directly or indirectly in any activity competitive with the business of Glen Alden or any division or subsidiary thereof. If Mr. Lane dies at any time during his employment by Glen Alden, Glen Alden will pay to Mr. Lane's widow, or if she predeceases him, to his estate, the sum of $2,791.67 each month for 120 months. The agreement also provides that Mr. Lane is authorized to devote a reasonable amount of business time to his personal investments and consultation in the public or private educational field as well as to continue his employment by Rapid for which he is currently receiving the sum of $35,000 per year.

(6) Each of the persons named in the foregoing table was, during 1970, employed on a full-time basis by Glen Alden, with the exception of Mr. Riklis, who is also an officer of Rapid, Mr. Becker, who is an officer of Rapid and Schenley and Mr. Lane, who is an officer of Rapid. During part of the year 1970 Messrs. Riklis, Becker and Lane were also officers of McCrory. Each of them, however, had received permission from McCrory, with whom at that time each had full-time employment contracts, to serve as an officer of Glen Alden and to receive the rate of compensation set forth in the foregoing table. Messrs. Riklis and Becker ceased receiving compensation from Glen Alden as of July 31, 1970. See "Certain Transactions" below for information as to a management assistance agreement which Glen Alden entered into with Rapid effective August 1, 1970.

(7) For information as to the participation of certain officers in the Key Executives' Stock Bonus Plan and the Management Stock Bonus Plan of Glen Alden see below under "Key Executives' and Management Stock Bonus Plans".

**Certain Transactions**

One of Glen Alden's wholly-owned subsidiaries is a tenant under two leases, entered into in 1966 as part of a sale-leaseback transaction with corporations owned by one of its employees' retirement plans, pursuant to which said tenant paid, during 1970, an aggregate of approximately $561,000 in rent.

In July 1968 Glen Alden entered into a $50,000,000 five year credit with a group of major commercial banks. Currently (March 31, 1971), said $50,000,000 credit has been reduced to $30,000,000. In November 1968 Glen Alden entered into a $133,000,000 credit agreement with the same group of banks. Currently, said $133,000,000 credit has been reduced to $22,997,000. These agreements provided for an interest rate of ⅜ of 1% above prime rate. Patrick J. Clifford, a director of Glen Alden, is Chairman of the Board and a director of Security National Bank which advanced Glen Alden $1,000,000 (currently reduced to $600,000) under the aforesaid five-year term credit and $1,596,000 (currently reduced to $275,000) under the aforesaid $133,000,000 credit agreement. Glen Alden has extended the maturity date of $55,000,000 (the balance then payable) of the said $133,000,000 credit from June 30, 1970 to February 1, 1971 with interest thereon increased to ¾ of 1% above prime rate. Glen Alden also has extended the maturity date of the aforesaid $22,997,000, the balance currently payable on said $133,000,000 credit from February 1, 1971 to August 1, 1971 at the same rate. Glen Alden also borrowed in May 1970 an additional $20,000,000 from said banks

at the same interest rate maturing February 1, 1971. Said maturity has also been extended to August 1, 1971. Of the said $20,000,000, the aforesaid Security National Bank participated to the extent of $400,000.

Effective August 1, 1970 Glen Alden entered into an agreement with Rapid whereby Rapid has agreed to make available and to render such management assistance and services as Glen Alden may from time to time require, including such services as financial planning, capital project planning and acquisition planning, for which Glen Alden has agreed to pay to Rapid an amount equal to $\frac{3}{40}$ths of one percent of Glen Alden's aggregate net sales (to a maximum of $1,750,000 for the 17-month period of the agreement), payable in quarterly installments. Such agreement, which expires December 31, 1971, is automatically renewable from fiscal year to fiscal year thereafter unless terminated by either party on not less than 90 days' written notice. The amount payable under the agreement for 1970 was approximately $468,000.

In 1969, Panacon's Western Tire division began to operate automotive departments in stores of S. Klein Department Stores, Inc. ("S. Klein") in the eastern part of the United States. S. Klein is a wholly-owned subsidiary of McCrory. Eleven of such departments are currently operated under leases expiring on July 31, 1971. Western Tire does not presently anticipate that such leases will be renewed. Rent paid by Western Tire to S. Klein during 1970 was approximately $173,000. Recently, Western Tire agreed to construct and operate three free-standing automotive centers to be located in S. Klein shopping centers in New York and New Jersey. However, Western Tire is currently having discussions with S. Klein with a view towards amending or terminating all such arrangements.

Panacon is obligated to pay rental of $10,000 per month with respect to most of the plant facilities, machinery and equipment located at its Robinson, Illinois plant which are leased from Panacon's Hourly Paid Employees Retirement Plan and Salaried Employees Pension Plan. As at December 31, 1970, unpaid rentals accrued were $100,000.

See "ELECTION OF DIRECTORS—Certain Transactions" for information as to certain indebtedness of Bernard Goldberg, a Vice President of Glen Alden and President of Schenley, to Schenley.

**Options Granted to Directors and Officers**

The following tabulation shows as to certain directors and officers and as to all directors and officers as a group the amount of options granted to or exercised by them since the beginning of Glen Alden's last fiscal year, and as to all options held by such persons as of December 31, 1970. Information has not been included for any portion of the year 1970 during which such person or persons did not hold such position.

| | Meshulam Riklis | Isidore A. Becker | Leonard C. Lane | Paul A. Johnston | Nathaniel Lapkin | D. Irving Obrow | Bernhardt Denmark | All directors and officers as a group |
|---|---|---|---|---|---|---|---|---|
| Granted: | | | | | | | | |
| Common Stock | | | | | | | | |
| Number of Shares | None | None | None | None | None | None | None | 22,000 |
| Average per share option price | — | — | — | — | — | — | — | $6.50 |
| Exercised: | | | | | | | | |
| Class B Senior Stock* | | | | | | | | |
| Number of Shares | None | None | None | None | None | None | None | 550 |
| Aggregate option price of options exercised | — | — | — | — | — | — | — | $21,940 |
| Aggregate market value of shares on date options exercised | — | — | — | — | — | — | — | $29,975 |
| Unexercised: | | | | | | | | |
| Common Stock | | | | | | | | |
| Number of Shares | None | None | None | None | None | None | None | 121,000 |
| Average per share option price | — | — | — | — | — | — | — | $11.55 |
| Class B Senior Stock* | | | | | | | | |
| Number of Shares | None | None | None | None | 12,375 | 2,750 | 11,000 | 26,675 |
| Average per share option price | — | — | — | — | $74.06 | $91.15 | $67.55 | $72.44 |

* Class B Senior Cumulative Convertible ($3) Preferred Stock.

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**Key Executives' and Management Stock Bonus Plans**

In March 1968 Glen Alden adopted Key Executives' and Management Stock Bonus Plans authorizing the issuance of Common Stock of Glen Alden as "Bonus Shares" to certain key executives and employees. Bonus Shares allocated to qualified employees are issued in the name of the recipient upon payment by him of the par value thereof ($1) and such shares are deposited with an escrow agent. Thereafter, for specified periods, the Bonus Shares are subject to restrictions as to the sale or other transfer, except for certain permitted transfers in the event of death. Moreover, in the event of termination of employment of a recipient, all or a portion (as specified in the Plans) of the Bonus Shares issued to him must first be offered to Glen Alden for repurchase for the same amount as originally paid by the recipient for such shares. While such Bonus Shares are held in escrow, the recipient has full voting and dividend rights.

Under the Key Executives' Stock Bonus Plan, the 90,000 shares of Glen Alden Common Stock authorized for allocation were allocated and issued on March 27, 1968 as follows: to Meshulam Riklis 22,500 shares, to Paul A. Johnston 17,500 shares, to Isidore A. Becker 17,500 shares, to Leonard C. Lane 17,500 shares, to Nathaniel Lapkin 15,000 shares. Mr. Riklis is Chairman of the Board, Mr. Johnston is President, Mr. Becker and Mr. Lane are each a Vice Chairman of the Board and Mr. Lapkin is the Senior Vice President. All of these persons were Directors on March 27, 1968. On such date the reported closing price of the Glen Alden Common Stock on the New York Stock Exchange was $13.375.

Under the Management Stock Bonus Plan, of the 100,000 shares of Glen Alden Common Stock which were authorized for allocation, 80,000 shares were allocated and issued. On July 8, 1968, Carl N. Singer and Austin List, then directors, received 10,000 and 3,000 shares respectively, and D. Irving Obrow and Bernhardt Denmark received 10,000 and 20,000 shares respectively of the shares allocated and issued under the Management Stock Bonus Plan. On such date, the reported closing price of the Glen Alden Common Stock on the New York Stock Exchange was $16.50.

Both the Key Executives' and Management Stock Bonus Plans were ratified by the Stockholders at the Annual Meeting thereof on September 26, 1968.

Mr. Singer terminated his employment with Glen Alden on October 5, 1969 as a result of which Glen Alden repurchased the 10,000 shares originally sold to him at $1.00 per share pursuant to the terms of the Management Stock Bonus Plan. On January 28, 1971 the employment of a Vice President of Glen Alden, who had purchased 5,000 shares of Common Stock under the said Management Stock Bonus Plan, terminated, as a result of which Glen Alden repurchased 3,500 of such shares at $1.00 per share pursuant to the terms of the Management Stock Bonus Plan. On February 28, 1971 the employment of Bernhardt Denmark, who had purchased 20,000 shares of the Common Stock under the Management Stock Bonus Plan terminated, as a result of which Glen Alden repurchased 10,000 of such shares at $1.00 per share pursuant to the terms of the Management Stock Bonus Plan. Currently, 43,500 shares are available for allocations under the Plan.

On or about May 20, 1968 an action entitled *Rosenfeld v. Becker, et al.,* Index No. 1969/11147, was commenced in the Supreme Court of the State of New York, New York County, by a holder of 226 shares of the Common Stock of Rapid. Plaintiff allegedly brought this action derivatively on behalf of Rapid and double-derivatively on behalf of Rapid's subsidiaries, McCrory, Lerner and Glen Alden. The individual defendants were directors of Rapid, McCrory, Lerner and/or Glen Alden at the time of the alleged wrongs set forth in the amended complaint ("complaint"). The complaint alleged that the individual defendants acted improperly when they adopted, on behalf of each of the corporate defendants, Key Executives' Stock Bonus Plans and Management Stock Bonus Plans; that these two plans resulted in excessive and illegal compensation; that, in particular, certain individual defendants (including Isidore A. Becker, Paul A. Johnston, Leonard C. Lane and Meshulam Riklis) received, by virtue of the Key Executives' Stock Bonus Plans, compensation that was, taken together with their other compensation, excessive and illegal; and that demand upon the boards of directors of Glen Alden and the other corporate defendants to institute action was unnecessary and excused because, among other

reasons, the alleged wrongdoers controlled and dominated those boards of directors. The individual defendants who appeared answered the complaint by denying the material allegations of the complaint, by denying any wrongdoing whatever and by asserting several affirmative defenses, including ratification and overwhelming approval of the Key Executives' Stock Bonus Plans and Management Stock Bonus Plans by the shareholders of the respective corporations.

On June 5, 1970, the action was dismissed in accordance with a Stipulation of Settlement which provided, among other things, that beneficiaries under the Rapid Plans will pay to Rapid a total of $157,050; that beneficiaries under the McCrory Plans will pay to McCrory a total of $161,000; that beneficiaries under the Lerner Plans will pay to Lerner a total of $137,475; that beneficiaries under the Glen Alden Plans will pay to Glen Alden a total of $127,500; and that one beneficiary under the Rapid Key Executives' Stock Bonus Plan relinquished any claim he had to purchase 7,334 shares of the Common Stock of Rapid at the par value thereof. The stipulation provides that the payments shall be made in four equal installments with the last payment to be made by January 31, 1972. To date Messrs. Becker, Goldberg, Johnston, Lane, Obrow and Riklis have paid the first three installments, and Messrs. Denmark and Lapkin have paid in full. The Key Executives' Stock Bonus Plans of Glen Alden, Rapid and McCrory are also the subject of other litigation. See "History and Business of Glen Alden—Litigation".

## DESCRIPTION OF DEBENTURES

The statements under this caption relating to the Debentures and the Indenture are summarized and do not purport to be complete. Such summaries make use of terms defined in the Indenture and are qualified in their entirety by express reference to the Indenture and the cited provisions thereof, a copy of which is on file with the Securities and Exchange Commission, Washington, D. C.

The Debentures will be issued under an Indenture between Glen Alden and Franklin National Bank, Trustee, to be dated as of May 15, 1971, which authorizes an aggregate principal amount of $105,000,000. The Debentures will bear interest from May 15, 1971 at the rate of 7½% per year, payable on the 15th day of May and November in each year commencing November 15, 1971, and will be due on May 15, 1985. All the Debentures are to be fully registered; none are to be in coupon form. They are to be issued in any full dollar denomination of $99 or less and in denominations of $100, $500, $1,000, any integral multiple of $1,000, and such other denominations as may be provided for in the Indenture or as may from time to time be authorized by Glen Alden. The Trustee is paying agent and agent for registry and transfer of the Debentures.

Holders of the Debentures will be permitted to apply the Debentures at par (in whole or, in the case of Debentures larger than $1,000, in integral multiples of $1,000) in payment of the exercise price of any publicly traded warrants issued after May 15, 1971 to purchase capital stock of Glen Alden. Glen Alden has no present plans for issuing any such warrants.

**Redemption Provisions:**

The Debentures may be redeemed, at the option of Glen Alden, as a whole or from time to time in part, at any time prior to maturity at their principal amount together with interest to the date fixed for redemption. Notice of redemption shall be given by sending notice thereof by mail, to the registered holders of Debentures to be redeemed, not less than 30 or more than 60 days prior to the date fixed for redemption. If less than all of the Debentures are to be redeemed, the Debentures to be redeemed shall be selected by the Trustee by lot or otherwise in such manner as it, in its sole discretion, deems appropriate and fair. However, Debentures in denominations of more than $1,000 may be redeemed either in whole or in part in multiples of $1,000 only, and no Debentures in a denomination of $1,000 or less may be redeemed in part.

**Subordination Provisions:**

The indebtedness to be evidenced by the Debentures will be subordinated to all Senior Indebtedness and Superior Indebtedness. Senior Indebtedness is defined as all indebtedness for borrowed money for

which Glen Alden is or may be liable to the extent such indebtedness is designated, either by its terms or by the Indenture, as Senior Indebtedness. Superior Indebtedness is defined as indebtedness for money borrowed for which Glen Alden is or may be liable to the extent such indebtedness is designated by its terms as Superior Indebtedness. The Debentures rank *pari passu* with Glen Alden's 6% Debentures and their subordination provisions are identical.

As of December 31, 1970 Glen Alden's aggregate consolidated indebtedness included approximately $168,718,000 of Senior Indebtedness (as so defined) and approximately $236,400,000 of indebtedness which constituted a prior claim against certain subsidiaries of Glen Alden. On the same date, Glen Alden had no Superior Indebtedness. Upon any insolvency, bankruptcy or the like, and upon any other winding-up, the indebtedness to be evidenced by the Debentures will not be paid until the payment in full, or the making of due provision for such payment, of all Senior and Superior Indebtedness. In such circumstances, any payments to which the holders of the Debentures would otherwise be entitled will not be paid until all Senior and Superior Indebtedness has been paid in full, or until due provision has been made for such payment. The Indenture also provides that no payment may be made on account of principal, Sinking Fund or interest on the Debentures unless full payment of all amounts then due on Senior Indebtedness has been made or duly provided for, or if there exists any default under Senior Indebtedness so as to entitle the holder of such Senior Indebtedness to declare its principal to be due and payable, or if there exists a default under the Indenture and the Debentures have been declared due and payable, until all Senior Indebtedness has been paid in full or due provision has been made for such payment.

After full payment or provision for payment of the Senior and Superior Indebtedness, the holders of the Debentures will be entitled to share ratably in the assets of Glen Alden in insolvency, bankruptcy, or the like, and upon any other winding-up, upon an equal basis with other creditors. By reason of the subordination of the Debentures to Senior and Superior Indebtedness, creditors of Glen Alden who are not holders of Senior or Superior Indebtedness or of the Debentures may recover less, ratably, in the event of insolvency, bankruptcy or the like, than holders of Senior or Superior Indebtedness, and may recover more, ratably, than holders of the Debentures.

**Restrictions on Dividends and Additional Indebtedness and Other Matters:**

The Indenture does not restrict Glen Alden's right to incur additional long-term debt or to pay dividends and does not contain any financial restrictions or requirements, except that no dividends may be declared or paid on Glen Alden's Common Stock (except dividends payable in shares of Common Stock) during the continuance of an Event of Default under the Indenture.

**Conversion Provisions:**

The Debentures are not convertible.

**Sinking Fund:**

Glen Alden is obligated on or before May 15, 1972, and annually on or before May 15 of each year thereafter to and including May 15, 1984, to make payment to the Trustee of an amount sufficient to redeem a portion of the aggregate principal amount of Debentures to be issued as follows:

| Years | Percentage |
|---|---|
| 1972-1976 | 3½% |
| 1977-1981 | 5½% |
| 1982-1984 | 12% |

Such Sinking Fund payments may be reduced in any year by the principal amount of Debentures theretofore acquired or redeemed by Glen Alden other than through operation of the Sinking Fund and not

theretofore made the basis for such a reduction. Notice of redemption through the Sinking Fund shall be given, and selection of the Debentures to be redeemed shall be made, in the same manner as described for voluntary redemption under the caption "Redemption Provisions" above.

**Events of Default:**

Default in the payment of interest or any Sinking Fund instalment when due which continues uncured for a period of 30 days after written notice by the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding, or default in the payment of principal of any Debentures when due which continues uncured for a period of 30 days after such notice, or bankruptcy, insolvency or similar adjudication against Glen Alden which remains undischarged and unstayed for a period of 90 days, or the institution of such proceedings voluntarily by Glen Alden or its consent thereto, or default under any other covenant contained in the Indenture which continues uncured for a period of 90 days after written notice by the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding, all constitute defaults under the Indenture upon the occurrence of which the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding may declare all of the Debentures then outstanding to be due and payable immediately; provided that, if all defaults shall have been cured before any judgment shall have been obtained against Glen Alden, the holders of a majority in principal amount may waive such defaults and rescind such declaration. Glen Alden is required to deliver annually to the Trustee a certificate as to the absence of any default under the Indenture.

No holder of any Debenture has the right to institute suit to enforce the Indenture unless (1) the holders of at least 30% in principal amount of the Debentures have requested the Trustee to institute suit and have offered to provide the Trustee with adequate indemnity against expenses and liability in connection with such suit, and (2) the Trustee has failed to institute such suit for 60 days after receipt of such request and offer to indemnify.

The right of each holder of the Debentures to enforce his rights to receive payment of the Debentures on account of interest and principal may not be impaired without his consent. The holders of a majority in aggregate principal amount of Debentures outstanding have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee. The sole obligation of the Trustee in the case of an Event of Default (as defined in the Indenture) which has not been cured is to exercise such of the rights and powers vested in it by the Indenture, and to use the same degree of care and skill in their exercise or use, as a prudent man would exercise and use under the circumstances in the conduct of his own affairs.

**Modification of the Indenture:**

The obligations of Glen Alden and the rights of the Debenture holders may be modified with the consent of Glen Alden and of the holders of not less than 66⅔% in principal amount of the Debentures at the time outstanding; provided that, without the consent of the holder of each Debenture so affected, no extension of the maturity of any Debenture, no reduction of the rate, or extension of time of payment, of interest thereon, and no reduction of the principal amount thereof may be made, and, without the consent of the holders of all Debentures then outstanding, no reduction of the percentage required for modification may be made.

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## II. ELECTION OF DIRECTORS

The persons named as proxies intend to vote the proxies received by them for the election of the eight individuals listed below as directors of Schenley. All are presently serving as directors of Schenley. Directors elected at the meeting will hold office until the next annual meeting of the stockholders and until their respective successors are elected and shall qualify, whether or not the proposed reorganization is consummated. In the event any of these individuals shall be unable to serve as a director at the time of the election, which the management does not expect, the persons named as proxies reserve the right to substitute such other persons as they may designate.

The name of each nominee, his principal occupation, the period during which he has served as director and the number of shares of Common Stock, Preference Stock and $1.40 Preferred Stock of Schenley beneficially owned, directly or indirectly, by each nominee as of the close of business on February 15, 1971 are as follows:

| | | Shares of Schenley | | | |
|---|---|---|---|---|---|
| Name | Principal Occupation | Common Stock | Preference Stock | $1.40 Preferred Stock | Director Since |
| Isidore A. Becker(1) | Chairman of the Board and Chief Executive Officer of Schenley; Vice Chairman of the Board of Glen Alden; Vice Chairman of the Board and Financial Vice President of Rapid; Vice Chairman of the Executive Committee and director of McCrory. | — | — | — | 1968 |
| David A. Chernow(1) | Executive Vice President-Finance and Administration and Comptroller of Schenley. | 1,500 | — | — | 1969 |
| Howard S. Feldman(1) | Executive Vice President-Sales and Marketing of Schenley. | 2,500 | — | — | 1969 |
| Bernard Goldberg(1) | President and Chief Operating Officer of Schenley; Vice President of Glen Alden. | 9,002 | — | — | 1966 |
| Albert N. Greenfield(1) | Chairman and President, Mission Savings and Loan Association, Oceanside, California. | — | — | — | 1970 |
| Milo B. Hopkins | Retired; prior thereto Executive Vice President of Manufacturers Hanover Trust Company; Director of James Talcott, Inc., industrial finance. | 100 | — | — | 1961 |
| Paul A. Johnston(1) | President, Chief Operating Officer, and a director of Glen Alden and a director of Rapid. | — | — | — | 1968 |
| Russell G. Smith | Retired; prior thereto Executive Vice President, Bank of America National Trust and Savings Association. | — | 16 | — | 1959 |

(1) The following directors and nominees have reported the beneficial ownership of the following equity securities of Glen Alden: Isidore A. Becker, 17,500 shares of Common Stock; Bernard Goldberg, 15,000 shares of Common Stock; and Paul A. Johnston, 19,600 shares of Common Stock. In addition, Mr. Goldberg holds an option to purchase 15,000 shares of Glen Alden Common Stock under the 1965 Qualified Stock Option Plan of Glen Alden granted on December 10, 1968. Mr. Becker has reported the beneficial ownership of 78,362 shares of Rapid Common Stock and 12,700 shares of Rapid $2.25 Cumulative Convertible Preferred Stock. In addition, Mr. Becker is a director of the McCrory Foundation, Inc., which owns 6,230 shares of Rapid Common Stock; he is a director of the Rapid-American Foundation, Inc., which owns 6,000 shares of Rapid Common Stock; he is a trustee of the RKO Foundation which owns $10,000 principal amount of Rapid 5¾% Subordinated Convertible Debentures; and he is a trustee of a foundation which owns 1,000 shares of Rapid Common Stock. David A. Chernow has reported that he owns 400 shares of Rapid Common Stock and warrants to purchase 1,000 shares of Rapid Common Stock. Howard S. Feldman has reported that he owns 200 shares of Rapid Common Stock and warrants to purchase 3,500 shares of Rapid Common Stock. Albert N. Greenfield has reported that he owns 12.669 shares of Rapid Common Stock, warrants to purchase 8,800 shares of Rapid Common Stock, 818 shares of Rapid $2.25 Cumulative Convertible Preferred Stock, and $238,800 principal amount of Rapid 5¾% Subordinated Convertible Debentures. Paul A. Johnston has reported that he owns 200 shares of Rapid Common Stock.

**Remuneration**

The following tabulation sets forth, on an accrual basis, all direct remuneration by Schenley during its last full year ended December 31, 1970, to the following persons for services in all capacities for the periods during which they served as directors or officers of Schenley: (i) each director whose aggregate direct remuneration exceeded $30,000; (ii) each of the three highest paid officers whose aggregate direct remuneration exceeded $30,000; and (iii) all directors and officers of Schenley as a group. The tabulation also states the amount of the annual benefits estimated to be payable to each such director or officer in the event of retirement at normal retirement date, pursuant to any pension or retirement plan of Schenley and its subsidiaries. For the purposes of this Proxy Statement, the term "officers" does not include assistant officers.

| Name of Individual or Identity of Group | Capacities in Which Remuneration Was Received | Aggregate Remuneration (Note A) | Estimated Annual Benefit After Normal Retirement (Note B) |
|---|---|---|---|
| Bernard Goldberg | President | $175,000 | $ 35,000 |
| David A. Chernow | Executive Vice President and Comptroller | 110,000 | 35,000 |
| Howard S. Feldman | Executive Vice President | 155,000 | 32,735 |
| Milo B. Hopkins | Director and Consultant | 31,750 | — |
| All directors and officers as a group (16 persons) | | 741,076 | |

A—Remuneration shown above does not include deferred compensation for the following persons accrued during the year ended December 31, 1970 under employment or retainer agreements: Howard S. Feldman, $40,000; Bernard Goldberg, $88,646; and Milo B. Hopkins, $20,000. Such deferred compensation is payable to them in installments following termination of employment or of the retainer agreement. In the event of the death of Mr. Feldman or Mr. Goldberg, payment is to be made to their respective estates. In the event of the death of Mr. Hopkins payment is to be made to his wife or in the event of her death in equal shares to his children. Reference is made to the text below for other provisions under employment or retainer agreements with the foregoing directors and officers.

B—The amounts shown are the estimated annual benefits after normal retirement under the Employees' Retirement and Benefit Plan of Schenley as computed by actuaries in connection with the Plan. The Plan was amended effective January 1, 1970, and the amounts shown herein reflect these amendments. The computations assume continuance of the present Plan, employment until age 65, and no change in present base rate of annual salary. Employees' pensions are provided for by a trust in which Schenley and participating subsidiaries from time to time make deposits computed on a group basis and not on an individual employee basis, and no specific amount has been paid to the trustees or set aside by Schenley or participating subsidiaries for the account of any individual director, officer or other employee.

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The following paragraphs describe the employment or retainer agreements and other compensation arrangements between Schenley and the individuals named in the remuneration table:

An employment agreement with Mr. Goldberg which terminates on February 28, 1974 provides for salary at the rate of $135,000 per annum as well as for deferred compensation at the rate of $15,000 per annum plus the higher of $50,000 or an amount equal to 2/10th's of 1% of consolidated net income before taxes, as defined in the agreement, payable over a ten-year period in equal monthly installments after termination of employment to him or to his estate. In the event of Mr. Goldberg's death during the term of the agreement a payment of $200,000 (or a proportionate amount if death occurs in the final year of the term) is to be made to his wife, or to his estate if she predeceases him. In the event Mr. Goldberg becomes disabled, as defined in the agreement, he is to receive compensation for advisory

and consulting services during the period of his disability at the rate of $100,000 per year. In the event of the termination of Mr. Goldberg's employment (other than by death, by voluntary termination on his part prior to September 30, 1973 or other than by termination for good cause prior to March 1, 1974), Mr. Goldberg is to receive annual payments during his lifetime, ranging from $14,000 to $31,666 depending on the date of termination. Upon Mr. Goldberg's death, either while in the employ of Schenley or after he becomes entitled to the above payments on termination, reduced payments based upon the aforesaid annual payments are to be paid to his wife for life. The foregoing payments upon death and termination are subject to reduction by the value of any retirement benefit, computed on the basis of a straight life annuity, payable under the Schenley Employees' Retirement and Benefit Plan. In addition, Schenley has agreed to maintain at its expense, during the term of the agreement, term life insurance in the amount of $50,000 on Mr. Goldberg's life for the benefit of such beneficiary or beneficiaries as he may name.

An employment agreement with Mr. Chernow which terminates December 31, 1974 provides for salary at the annual rate of $100,000 per year. In the event Mr. Chernow becomes disabled, as defined in the agreement, he is to receive compensation for advisory and consulting services during the period of his disability at the rate of $50,000 per year. Under the agreement, upon termination of employment (other than by death, termination for cause, or voluntary termination on his part prior to the end of the term of the agreement), Schenley is to pay to Mr. Chernow annually during his life in equal monthly installments a sum equal to $1,500 for each year of continuous service from September 1, 1966 to February 28, 1969 and a sum equal to $2,000 per year for each year of continuous service from and after March 1, 1969. Upon Mr. Chernow's death, either while in the employ of Schenley or after he becomes entitled to the above payments on termination, reduced payments based upon the aforesaid payments are to be paid to his wife for life. The foregoing payments are subject to reduction by the value of any retirement benefit, computed on the basis of a straight life annuity, payable under the Schenley Employees' Retirement and Benefit Plan. In the event of the death of Mr. Chernow while employed under the agreement, Schenley is to pay to his wife or, if she predeceases him, to his estate, one year's salary (or a proportionate amount if death occurs in the final year of the term).

An employment agreement with Mr. Feldman which terminates February 28, 1974, provided during 1970 for current salary at the annual rate of $85,000 as well as for deferred compensation at the annual rate of $40,000 to be paid in equal monthly installments over a period of years after termination of employment, as specified in the agreement, to Mr. Feldman or to his estate. The agreement has been amended to provide, effective January 1, 1971, for discontinuance of deferred compensation, and for current salary at an annual rate of $125,000. In the event Mr. Feldman becomes disabled, as defined in the agreement, he is to receive compensation for advisory and consulting services during the period of his disability at the rate of $62,500 per year. Upon termination of employment (other than by death, termination for cause, or voluntary termination on his part prior to the end of the term of the agreement), Schenley is to pay to Mr. Feldman annually during his life in equal monthly installments a sum equal to $1,250 for each year of continuous service from November 1, 1966 to July 31, 1967, a sum equal to $1,500 for each year of continuous service from August 1, 1967 to February 28, 1969, and a sum equal to $2,500 for each year of continuous service from and after March 1, 1969. Upon Mr. Feldman's death, either while in the employ of Schenley or after he becomes entitled to the above payments on termination, reduced payments based upon the aforesaid payments are to be paid to his wife for life. Also in the event of the death of Mr. Feldman while employed under the agreement, Schenley is to pay to his wife or, if she predeceases him, to his estate, one year's salary (or a proportionate amount if death occurs in the final year of the term).

The agreements with the executives named in the preceding paragraphs provide that as a condition to the receipt of the annual payments upon termination of employment the executive shall render consulting services to Schenley and shall not engage in any competitive business.

Mr. Hopkins has a retainer agreement with Schenley under which he is to render advisory and consulting services to Schenley until February 28, 1974 for an annual compensation of $30,000 plus

$20,000 of deferred compensation to be paid, without interest, in equal monthly installments of $2,000 each commencing March 1, 1974 until the aggregate amount is paid in full. In the event of Mr. Hopkins' death prior to the expiration of the period over which such payments are made, the payments are to be continued to his wife or in the event of her death in equal shares to his children.

Schenley had a Key Group Extra Compensation Plan and a Key Executive Deferred Compensation Incentive Plan in which employees, including directors and officers, participated in prior years. Credits accumulated under the Key Group Extra Compensation Plan in prior years by two officers in the group of all officers and directors included in the remuneration table will provide aggregate annual benefits of $12,766, contingently payable over a period of ten years after termination of employment.

Schenley's Key Executive Deferred Compensation Incentive Plan was terminated, effective October 31, 1968, and there was credited as of that date to the account of each participant the then value of his interest in the Plan. From and after November 1, 1968 each participant is credited with his share of the earnings of the revocable trust established under the Plan, and Schenley has guaranteed that such earnings will be not less than the equivalent of simple interest at the rate of 5% per year on the value of each participant's interest in the Plan as at October 31, 1968. Payments under the Plan are to be made to a participant in installments over ten years after cessation of employment with alternative provisions in the event employment ceases before a participant reaches age 65 or in the event his employment is terminated due to death or disability.

The aggregate amounts (including earnings) of the foregoing awards under the Key Executive Deferred Compensation Incentive Plan of directors and officers named in the remuneration table, and of all directors and officers as a group, as at December 31, 1970, are as follows:

| Name of Individual or Identity of Group | Aggregate Amounts |
|---|---|
| Bernard Goldberg | $191,781 |
| David A. Chernow | 166,633 |
| Howard S. Feldman | 95,891 |
| All directors and officers as a group (5 persons) | 623,919 |

**Certain Transactions**

An agreement between Glen Alden and Schenley relating to Glen Alden's consolidated federal income tax returns provides that Schenley's federal income tax liability for any period in which it has taxable income will be the same as such liability would have been if Schenley were not included in Glen Alden's consolidated return. However, if Schenley has a net loss for the tax period covered by Glen Alden's consolidated return, Glen Alden is obligated to pay to Schenley an amount equal to the reduction in Glen Alden's consolidated tax liability resulting from such loss. The agreement also provides that Glen Alden will pay Schenley a sum at an annual rate of $500,000, so long as Schenley remains a member of the Glen Alden consolidated income tax group and any shares of $1.40 Preferred Stock are outstanding.

Schenley has sublet from Glen Alden, at an annual rental of approximately $918,000, which is substantially equivalent to Glen Alden's cost, 31.39% of the total floor space which Glen Alden has leased from the owners of the building at 888 Seventh Avenue, New York, New York.

During 1970 Schenley owned two executive aircraft, one of which was sold in January 1971, which were leased to Glen Alden. The aggregate rental received during 1970 for the two aircraft was approximately $289,000. The lease on the remaining aircraft expires on June 30, 1974 and provides for an annual rental of approximately $156,000. Glen Alden bears all operating and maintenance expenses of the plane, and Schenley may at its request use the plane.

Bernard Goldberg, President of Schenley, is indebted to Schenley in the sum of $69,950, evidenced by a note payable February 28, 1974, which bears no interest. Such indebtedness was incurred prior to his election as an officer or director of Schenley to enable him to purchase accommodations for use as a residence and for business purposes.

Schenley presently owns $25,973,000 principal amount of Glen Alden 6% Debentures, which it acquired at an aggregate cost of approximately $15,832,000 in transactions in the over-the-counter market and on the New York Stock Exchange as follows:

| | (In Thousands) | | | |
|---|---|---|---|---|
| | OTC | | N.Y.S.E. | |
| | Principal Amount | Cost | Principal Amount | Cost |
| April and July 1969 | $15,752 | $10,398 | $1,804 | $1,207 |
| May 1970 | 1,900 | 828 | 3,117 | 1,352 |
| February 26-March 3, 1971 | 3,400 | 2,047 | — | — |
| | $21,052 | $13,273 | $4,921 | $2,559 |

## III. DESIGNATION OF AUDITORS

The Board of Directors, subject to the approval of the stockholders, has designated Haskins & Sells as the independent auditors to audit the accounts of Schenley and certain of its subsidiaries for the year ending December 31, 1971.

According to information furnished to Schenley neither Haskins & Sells nor any of its partners has any financial interest in Schenley or any of its affiliates, other than as independent auditors. Haskins & Sells are also the independent auditors of Rapid and Glen Alden and certain of their subsidiaries.

Unless otherwise directed by the stockholder, proxies will be voted for the approval of the designation of Haskins & Sells as the independent auditors to audit the accounts of Schenley for the year ending December 31, 1971.

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## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GLEN ALDEN CORPORATION:

We have examined the consolidated balance sheet of Glen Alden Corporation and subsidiaries as of December 31, 1970 and 1969, the statement of consolidated income for the five years ended December 31, 1970 and the statements of consolidated changes in working capital and stockholders' equity for the three years ended December 31, 1970, except amounts included for The B.V.D. Company, Inc. and its consolidated subsidiaries for the periods ended prior to January 1, 1969 and for the Stanley Warner Division (formerly Stanley Warner Corporation and its subsidiary companies) for the two years ended August 26, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished with the report of S. D. Leidesdorf & Co. on their examination of the statements of consolidated income and changes in working capital of The B.V.D. Company, Inc. and its consolidated subsidiaries and the report of Price Waterhouse & Co. on their examination of the statement of consolidated income of the Stanley Warner Division. The combined revenues of The B.V.D. Company, Inc. and its consolidated subsidiaries and of the Stanley Warner Division constitute substantial portions of the consolidated total revenues during the respective periods.

In our opinion, which insofar as it relates to amounts included for The B.V.D. Company, Inc. and its consolidated subsidiaries for the periods ended prior to January 1, 1969 and for the Stanley Warner Division for the two years ended August 26, 1967 is based solely on the reports of other accountants referred to above, the accompanying consolidated balance sheet, statement of consolidated income, and statements of consolidated changes in working capital and stockholders' equity, with their notes, present fairly the financial position of the companies at December 31, 1970 and 1969, the results of their operations for the five years ended December 31, 1970 and the changes in their working capital for the three years ended December 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Two Broadway
New York 10004
March 12, 1971
(certain information in Notes K and M to the Financial Statements being as of a later date.)

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To the Board of Directors of
GLEN ALDEN CORPORATION

In our opinion, the statement of income (not presented separately herein) of the Stanley Warner Division of Glen Alden Corporation (until December 22, 1967 Stanley Warner Corporation and subsidiary companies) presents fairly the results of their operations for the two years ended August 26, 1967 in conformity with generally accepted accounting principles consistently applied. Our examination of this statement was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

New York, New York
February 29, 1968

To the Board of Directors
THE B.V.D. COMPANY, INC.
New York, New York

We have examined the consolidated statements of income of The B.V.D. Company, Inc. and its subsidiaries (predecessor corporation) for the year ended April 1, 1967, and of The B.V.D. Company, Inc. and consolidated subsidiaries ("Company") for the nine months ended December 30, 1967 (eleven months as to retail subsidiaries) and the year ended December 31, 1968, and the consolidated statements of capital surplus and retained earnings and of consolidated changes in working capital of the Company for the year ended December 31, 1968. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As to some companies and entities whose financial statements for certain periods were not examined by us, we were furnished with reports of other certified public accountants as follows: United Mills, a division of a consolidated subsidiary and United Mills Realty Company, Inc., statement of operations for the year ended April 1, 1967—Wasserman & Taten; Fordham-Bardell Shirt Corp. and its subsidiaries, consolidated statement of income for the year ended April 1, 1967—Fred Landau & Co. (Successor to Joseph Kantor & Company). Our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries and entities, is based solely upon such reports. With respect to the opening balances entering into the determination of net income for the nine months ended December 30, 1967 of Fordham-Bardell Shirt Corp. and its subsidiaries, United Mills, a division of a consolidated subsidiary, and United Mills Realty Company, Inc., we have relied upon the reports of the aforementioned certified public accountants on their examination of the financial statements of such subsidiaries and entities for the preceding year.

In our opinion, based upon our examinations and the reports of other certified public accountants referred to above, the consolidated financial statements mentioned in the first paragraph hereof (not presented separately herein), present fairly the consolidated results of operations of the predecessor corporation for the year ended April 1, 1967, and of The B.V.D. Company, Inc. and consolidated subsidiaries for the nine months ended December 30, 1967 (eleven months as to retail subsidiaries), and the year ended December 31, 1968, and the consolidated changes in working capital of the Company for the year ended December 31, 1968, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes in the nine months ended December 30, 1967 (eleven months as to retail subsidiaries), which we approve. Had these changes not been made, net income for the nine months ended December 30, 1967 would have been approximately $260,000 greater.

S. D. LEIDESDORF & CO.

New York, N. Y.
March 4, 1969

To the Board of Directors of the
FORDHAM-BARDELL SHIRT CORP.

We have examined the consolidated statement of income of the Fordham-Bardell Shirt Corp. and its subsidiary companies for the year ended April 1, 1967 (not being included separately herein). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statement, together with its notes, presents fairly the consolidated results of operations of the Fordham-Bardell Shirt Corp. and its subsidiary companies for the year ended April 1, 1967, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

FRED LANDAU & CO. (Successor to
JOSEPH KANTOR & COMPANY)

New York, New York
July 11, 1967

To the Boards of Directors
UNITED MILLS DIVISION OF FLEXEES
INTERNATIONAL, INC. AND ITS WHOLLY
OWNED SUBSIDIARY, UNITED MILLS REALTY
COMPANY, INC.
Mt. Gilead, North Carolina

We have examined the consolidated statement of operations (not presented separately herein) of United Mills Division of Flexees International, Inc. and its wholly owned subsidiary, United Mills Realty Company, Inc. for the fiscal year ended April 1, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned statement presents fairly the consolidated results of operations of United Mills Division of Flexees International, Inc. and its wholly owned subsidiary United Mills Realty Company, Inc. for the period shown above, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WASSERMAN & TATEN

New York, N. Y.
May 23, 1967

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1969 and 1970

### ASSETS

| | December 31, 1969 | December 31, 1970 |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash, including bank certificates of deposit ($4,133,000 and $9,428,089) | $ 82,172,352 | $ 94,660,598 |
| Marketable securities, at cost which approximates market | 13,901,269 | 15,932,643 |
| Notes and accounts receivable, less allowances ($4,828,679 and $5,604,355) | 212,422,099 | 209,074,460 |
| Inventories, at the lower of cost or market (Note B) | 438,327,000 | 428,728,671 |
| Other receivables and prepaid expenses | 17,753,174 | 21,229,754 |
| Total current assets | 764,575,894 | 769,626,126 |
| **INVESTMENTS (Note A):** | | |
| Seager Evans & Co., Ltd., at equity | 19,540,950 | 19,572,949 |
| Briggs Manufacturing Company, common stock (at cost, less reserve of $2,750,000) and notes | 4,918,547 | — |
| Unconsolidated foreign subsidiaries and affiliates, substantially at cost | 4,070,944 | 3,612,141 |
| Total investments | 28,530,441 | 23,185,090 |
| **PROPERTY, PLANT AND EQUIPMENT, AT COST (Note C):** | | |
| Land | 34,170,264 | 30,810,731 |
| Buildings | 152,500,196 | 161,578,465 |
| Machinery, equipment, furniture and fixtures | 184,914,506 | 202,437,739 |
| Other | 20,227,475 | 19,423,640 |
| | 391,812,441 | 414,250,575 |
| Less accumulated depreciation and amortization | 213,791,799 | 228,918,075 |
| Property, plant and equipment—net | 178,020,642 | 185,332,500 |
| **OTHER ASSETS:** | | |
| Intangibles, less amortization (Note D) | 123,452,338 | 131,615,909 |
| Unamortized debt discount and expense | 86,272,062 | 83,983,746 |
| Franchises (Note D) | 50,000,000 | 50,000,000 |
| Deferred charges and sundry | 25,207,978 | 25,529,318 |
| Total other assets | 284,932,378 | 291,128,973 |
| | $1,256,059,355 | $1,269,272,689 |

See Notes to Financial Statements.

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## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1969 and 1970

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 31, 1969 | December 31, 1970 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Short-term debt | $ 154,783,825 | $ 141,114,910 |
| Current maturities of long-term notes payable (Note E) | 76,114,190 | 78,828,331 |
| Accounts payable—trade | 49,925,641 | 52,552,363 |
| Accrued liabilities: | | |
| Salaries, wages, commissions and bonuses | 9,926,950 | 9,142,007 |
| Miscellaneous taxes withheld and accrued | 24,745,428 | 23,406,301 |
| Interest | 11,839,371 | 12,373,978 |
| Other | 20,552,641 | 27,932,909 |
| Accrued Federal and foreign income taxes (Note F) | 9,882,325 | 17,118,773 |
| Dividends payable | 2,251,124 | 2,230,337 |
| Total current liabilities | 360,021,495 | 364,699,909 |
| LONG-TERM NOTES PAYABLE, LESS CURRENT MATURITIES (Note E) | 211,834,594 | 199,272,137 |
| SINKING FUND SUBORDINATED DEBENTURES (Note E) | 339,737,300 | 334,720,300 |
| RESERVES AND OTHER LIABILITIES: | | |
| Deferred income taxes (Note F) | 10,061,795 | 10,607,980 |
| Warranties | 4,875,000 | 4,450,000 |
| Other | 18,179,703 | 21,355,683 |
| Total reserves and other liabilities | 33,116,498 | 36,413,663 |
| MINORITY INTEREST IN SUBSIDIARIES (Note A) | 42,823,236 | 55,791,074 |
| SUBORDINATED CONVERTIBLE DEBENTURES (Note E) | 10,814,000 | 10,814,000 |
| STOCKHOLDERS' EQUITY (see accompanying statement): | | |
| Preferred and preference stocks—aggregate redemption requirements ($123,570,467 and $121,295,965) (Notes G and H) | 14,828,768 | 12,275,498 |
| Common stock, par value $1 per share; authorized—36,000,000 shares; issued—21,323,664 and 21,407,238 shares (Notes G and H) | 21,323,664 | 21,407,238 |
| Capital surplus | 128,875,684 | 129,932,051 |
| Retained earnings (Note E) | 123,260,287 | 128,821,590 |
| Less treasury stock, at cost (Note G) | (30,576,171) | (24,874,771) |
| Total stockholders' equity | 257,712,232 | 267,561,606 |
| COMMITMENTS AND CONTINGENT LIABILITIES (NOTES I, J, K and M) | | |
| | $1,256,059,355 | $1,269,272,689 |

See Notes to Financial Statements.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## STATEMENT OF STOCKHOLDERS' EQUITY

### For the three years ended December 31, 1970

| | Stated Value | | | | | Treasury Stock—At Cost | | | |
|---|---|---|---|---|---|---|---|---|---|
| | $2.25 Senior Cumulative Convertible Preferred | Class B Senior Cumulative Convertible ($3) Preferred | $3.15 Cumulative Convertible Preferred | Class C (Contingent Preference) | Par Value of Issued Common Stock | Class C (Contingent Preference) | Common Stock | Capital Surplus | Retained Earnings |
| Balance, January 1, 1968 | $529,029 | $1,669,998 | $36,801,310 | $11,975,619 | $ 6,808,797 | | $16,337,740 | $ 87,572,771 | $ 86,813,639 |
| Issuance under stock option and stock bonus plans | | 11,395 | 458,604 | | | | (1,964,955) | 1,268,267 | |
| Issuance for companies acquired | | | | | | | (1,005,210) | (945,696) | |
| Conversion of preferred stock | (119,669) | (792,587) | (27,731,826) | | 11,746,012 | | | 16,896,095 | |
| Redemption of stock | | | | (2,393,246) | | | | | (3,639,184) |
| Net income | | | | | | | | | 23,522,354 |
| Increase arising from pooling of interests transaction | | | | | | | | 2,942,058 | 11,260,654 |
| Cash dividends: | | | | | | | | | |
| $2.25 Senior Preferred | | | | | | | | | (1,271,035) |
| Class B Preferred ($3) | | | | | | | | | (3,313,751) |
| $3.15 Preferred | | | | | | | | | (1,818,577) |
| Common ($.175 per share) | | | | | | | | | (1,359,315) |
| Cash dividends of pooled company | | | | | | | | | (723,261) |
| Other | | (19,305) | 171,247 | | | | | 244,753 | 362,851 |
| Balance, December 31, 1968 | 409,360 | 869,501 | 9,699,335 | 9,582,373 | 18,554,809 | | 13,367,575 | 107,978,248 | 109,834,375 |
| Issuance under stock option and stock bonus plans | | 2,639 | 142,240 | | 1,800 | | (194,810) | | |
| Additional distribution for prior years' acquisitions | | | | | | | (1,737,284) | | |
| Conversion of preferred stock | (23,128) | (87,689) | (4,939,448) | | 1,825,880 | | | 3,223,279 | |
| Redemption of stock | | | | (1,195,711) | | | | | (1,818,209) |
| Purchase of stock | | | | | | $19,140,690 | | | |
| Conversion of debentures | | | 369,296 | | 941,175 | | | 15,675,504 | |
| Issuance of 700,000 warrants | | | | | | | | 1,400,000 | |
| Equity in transactions of subsidiary companies | | | | | | | | 216,134 | 138,731 |
| Net income | | | | | | | | | 21,767,860 |
| Cash dividends: | | | | | | | | | |
| $2.25 Senior Preferred | | | | | | | | | (862,489) |
| Class B Preferred ($3) | | | | | | | | | (2,383,341) |
| $3.15 Preferred | | | | | | | | | (509,761) |
| Cash dividends of pooled company | | | | | | | | | (2,906,879) |
| Other | | | | | | | | 382,519 | |
| Balance, December 31, 1969 | 386,232 | 784,451 | 5,271,423 | 8,386,662 | 21,323,664 | 19,140,690 | 11,435,481 | 128,875,684 | 123,260,287 |
| Conversion of preferred stock | | (7,155) | (146,248) | | 83,574 | | | 69,810 | |
| Redemption of stock | | | | (2,393,266) | | (5,711,400) | | | (3,639,164) |
| Increase in valuation of warrants issued in prior year | | | | | | | | 1,890,000 | |
| Equity in transactions of subsidiary companies | | | | | | | | (495,623) | (9,366,376) |
| Repurchase of stock issued under stock bonus plan | | | | | | | 10,000 | | |
| Issuance under stock option plan | | 1,099 | | | | | | | |
| Net income | | | | | | | | | 22,260,047 |
| Cash dividends: | | | | | | | | | |
| $2.25 Senior Preferred | | | | | | | | | (869,023) |
| Class B Preferred ($3) | | | | | | | | | (2,334,1[illegible]) |
| $3.15 Preferred | | | | | | | | | (490,0[illegible]) |
| Other | | (7,700) | | | | | | (407,820) | |
| Balance, December 31, 1970 | $386,232 | $770,695 | $5,125,175 | $5,993,396 | $21,407,238 | $13,429,290 | $11,445,481 | $129,932,051 | $128,821,590 |

See Notes to Financial Statements.



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## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED CHANGES IN WORKING CAPITAL

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1968 | 1969 | 1970 |
| Working Capital, January 1 | $115,501,347 | $421,064,537 | $404,554,399 |
| Increases: | | | |
| Net income | 23,522,354 | 21,767,860 | 22,260,047 |
| Depreciation and amortization | 11,174,243 | 14,325,076 | 14,490,044 |
| Amortization of intangibles, debt discount and expense, etc. | 1,758,106 | 4,783,191 | 6,485,077 |
| Deferred income tax provision | 1,571,064 | 2,375,324 | 2,359,930 |
| Minority interest in net income | 641,833 | 3,092,681 | 4,143,838 |
| Other—net | 541,915 | (2,942,666) | 875,043 |
| Total from operations | 39,209,515 | 43,401,466 | 50,613,979 |
| Sales of properties and businesses, less in 1968, working capital at dates of disposition—$6,718,764 | 39,285,323 | 9,363,119 | 5,482,327 |
| 6% sinking fund debentures, less discount—$89,321,725 | 267,965,175 | — | — |
| Increase in other long-term debt—net | 41,806,255 | — | — |
| Subordinated convertible debentures—net | 25,584,000 | — | — |
| | 413,850,268 | 52,764,585 | 56,096,306 |
| Decreases: | | | |
| Additions to property, plant and equipment—net | 16,505,286 | 20,934,173 | 17,751,545 |
| Cash dividends | 7,762,678 | 3,755,591 | 3,693,204 |
| Long-term debt reductions and reclassifications—net | — | 26,418,893 | 31,410,164 |
| Redemption and, in 1969, purchase of Class C stock | 6,032,430 | [illegible]725,350 | 321,030 |
| Purchase of subsidiaries, less working capital at dates of acquisition—$324,007,940 in 1968 and $1,497,939 in 1970 | 77,666,612 | — | 84,592 |
| Other—net | 320,072 | 9,440,716 | 2,463,953 |
| | 108,287,078 | 69,274,723 | 55,724,488 |
| Working Capital, December 31 | 421,064,537 | 404,554,399 | 404,926,217 |
| Increase (Decrease) in Working Capital* | $305,563,190 | ($ 16,510,138) | $ 371,818 |
| *Increase (Decrease) in Current Assets: | | | |
| Cash, including bank certificates of deposit | $ 11,729,955 | $ 23,128,861 | $ 12,488,246 |
| Marketable securities | 22,181,171 | (15,229,799) | 2,031,374 |
| Notes and accounts receivable | 128,818,776 | 16,872,420 | (3,347,639) |
| Inventories | 354,672,413 | (26,501,649) | (9,598,329) |
| Other receivables and prepaid expenses | (336,952) | (1,690,044) | 3,476,580 |
| Total | 517,065,363 | (3,420,211) | 5,050,232 |
| Increase (Decrease) in Current Liabilities: | | | |
| Short-term debt | 81,745,554 | 4,691,947 | (13,668,915) |
| Current maturities of long-term notes payable | 57,094,102 | 9,631,644 | 2,714,141 |
| Accounts payable—trade | 26,381,127 | (4,864,870) | 2,626,722 |
| Accrued liabilities | 38,882,477 | 5,338,679 | 5,790,805 |
| Accrued Federal and foreign income taxes | 5,969,258 | (2,528,942) | 7,236,448 |
| Dividends payable | 1,429,655 | 821,469 | (20,787) |
| Total | 211,502,173 | 13,089,927 | 4,678,414 |
| Increase (Decrease) in Working Capital | $305,563,190 | ($ 16,510,138) | $ 371,818 |

See Notes to Financial Statements.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

A. Principles of Consolidation

The consolidated financial statements include the accounts of Glen Alden and all subsidiaries except Seager Evans & Co. Ltd., a 75% owned subsidiary in the United Kingdom, and certain other foreign subsidiaries whose assets and operations are not significant.

During 1968, Glen Alden purchased approximately 88% of the outstanding common stock of Schenley Industries, Inc. and the 1968 statement of consolidated income includes Schenley for the four months ended December 31, 1968. During December 1969, BHM Industries, Inc., a majority owned subsidiary of Schenley, was merged into Schenley in a pooling of interests, and retroactive effect has been given to this transaction in the accompanying consolidated financial statements.

During April 1970, Philip Carey Corporation, a wholly-owned subsidiary of Glen Alden, was merged into Briggs Manufacturing Company (48% of its common stock was then owned by Glen Alden) and Briggs thereupon changed its name to Panacon Corporation. As a result of the merger, Glen Alden owned approximately 88% of the outstanding stock of Panacon.

Included in the accompanying consolidated balance sheet are the following foreign net assets, principally located in Canada and Europe:

| | December 31, | |
|---|---|---|
| | 1969 | 1970 |
| Current assets | $ 77,649,377 | $ 79,248,009 |
| Property, plant and equipment—net | 21,854,388 | 23,242,723 |
| Other assets | 3,142,852 | 5,801,664 |
| Total assets | 102,646,617 | 108,292,396 |
| Current liabilities | 19,598,609 | 19,709,203 |
| Long-term debt, less current maturities | 821,382 | 2,306,536 |
| Sundry non-current items | 4,497,831 | 5,878,586 |
| Total liabilities | 24,917,822 | 27,894,325 |
| Net assets | $ 77,728,795 | $ 80,398,071 |

Separate financial statements have not been presented for Seager Evans or other non-consolidated subsidiaries since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

The minority interest in the accompanying consolidated balance sheet consists of:

| | December 31, | |
|---|---|---|
| | 1969 | 1970 |
| Capital stock | $ 3,899,107 | $ 5,567,978 |
| Capital surplus | 7,775,291 | 10,517,929 |
| Retained earnings | 31,148,838 | 39,705,167 |
| Total | $42,823,236 | $55,791,074 |

The following are condensed financial statements of Glen Alden Corporation (parent company) as of December 31, 1969 and 1970 and for the three years ended December 31, 1970:

### CONDENSED STATEMENT OF INCOME (Parent Company)

| | (In Thousands) | | |
|---|---|---|---|
| | Year Ended December 31, | | |
| | 1968(a) | 1969 | 1970 |
| Revenues: | | | |
| Other—net | $ 1,789 | $ 1,394 | $ 2,278 |
| Costs and Expenses: | | | |
| General and administrative expenses | 6,443 | 8,776 | 10,659 |
| Interest and debt expense | 17,978 | 38,489 | 40,120 |
| Depreciation and amortization | 145 | 162 | 162 |
| | 24,566 | 47,427 | 50,941 |
| Loss Before Income Taxes, Equity in Income of Subsidiaries and Extraordinary Items | (22,777) | (46,033) | (48,663) |
| Federal Income Taxes (b) | (13,341) | (23,578) | (24,294) |
| Loss Before Equity in Income of Subsidiaries and Extraordinary Items | (9,436) | (22,455) | (24,369) |
| Equity in Income of Subsidiaries | 32,092 | 43,193 | 48,804 |
| Income Before Extraordinary Items | 22,656 | 20,738 | 24,435 |
| Extraordinary Items (including equity in extraordinary items of subsidiaries) | 866 | 1,030 | (2,267) |
| Net Income | $23,522 | $21,768 | $22,168 |

(a) Restated for pooling of interests transaction in 1969.

(b) The Federal income tax credit represents the Company's share of the consolidated tax provision of Glen Alden and its subsidiaries resulting principally from the exclusion of "Equity in income of subsidiaries."

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### CONDENSED BALANCE SHEET (Parent Company)

#### ASSETS

| | (In Thousands) December 31, 1969 | 1970 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 4,357 | $ 12,146 |
| Intercompany receivables | 10,970 | 26,665(a) |
| Other | 998 | 2,650 |
| Total | 16,325 | 41,461 |
| Investments and Advances: | | |
| Securities of consolidated subsidiaries—at equity | 525,148 | 516,899 |
| Due from consolidated subsidiaries | 28,000 | 27,017 |
| Other | 5,365 | 206 |
| Total | 558,513 | 544,122 |
| Fixed Assets, at cost (net of accumulated depreciation and amortization) | 608 | 462 |
| Other Assets: | | |
| Intangibles | 98,860 | 109,776 |
| Unamortized debt discount and expense | 89,665 | 88,[illegible]44 |
| Franchises | 50,000 | 50,000 |
| Deferred charges and sundry | 2,779 | 1,798 |
| Total | 241,304 | 249,918 |
| Total | $816,750 | $835,963 |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| Current Liabilities: | | |
| Short-term debt | $ 2,785 | $ 20,000 |
| Current maturities of long-term notes payable | 69,773 | 71,752 |
| Accounts payable and accrued liabilities | 13,716 | 13,002 |
| Accrued Federal income taxes | (1,341) | 9,122 |
| Total | 84,933 | 113,876 |
| Long-Term Notes Payable, Less Current Maturities | 104,353 | 85,938 |
| Sinking Fund Subordinated Debentures due 1988 | 357,293 | 357,293 |
| Intercompany Payables Due after One Year | 4,159 | 3,435 |
| Reserves and Other Liabilities | 8,300 | 7,951 |
| Stockholders' Equity: | | |
| Capital stock | 36,152 | 33,683 |
| Capital surplus | 128,876 | 129,932 |
| Retained earnings(b) | 123,260 | 128,730 |
| Less treasury stock, at cost | (30,576) | (24,875) |
| Total | 257,712 | 267,470 |
| Total | $816,750 | $835,963 |

(a) Includes dividend receivable of $2,410,000. The comparable amount ($2,410,000) for 1969 is included in "Securities of consolidated subsidiaries—at equity."

(b) At December 31, 1970, approximately $17,166,000 of retained earnings was available for the payment of cash dividends and redemptions or purchases of capital stock.

### CONDENSED STATEMENT OF CHANGES IN WORKING CAPITAL (Parent Company)

| | (In Thousands) Year Ended December 31, 1968 | 1969 | 1970 |
|---|---|---|---|
| Working Capital, January 1 | $(41,796) | $(39,323) | $(68,608) |
| Increases: | | | |
| Net income | 23,522 | 21,768 | 22,168 |
| Depreciation and amortization | 145 | 162 | 162 |
| Amortization of intangibles, debt discount and expense, etc. | 934 | 2,630 | 3,814 |
| Deferred income tax provision | 538 | 840 | 379 |
| Equity in undistributed net income of consolidated subsidiaries | (26,964) | (27,327) | (7,936) |
| Total from operations | (1,825) | (1,927) | 18,587 |
| Sales of properties and businesses | 22,865 | 7,486 | — |
| 6% sinking fund subordinated debentures, less discount—$89,321,725 | 267,965 | — | — |
| Increase in other long-term debt—net | 71,068 | — | — |
| | 360,073 | 5,559 | 18,587 |
| Decreases: | | | |
| Cash dividends | 7,763 | 3,756 | 3,693 |
| Long-term debt reductions and reclassifications—net | — | 6,147 | 18,415 |
| Redemption and purchase of Class C stock | 6,032 | 8,725 | 321 |
| Investment in and advances to subsidiaries | 342,699 | 15,357 | (1,780) |
| Other—net | 1,106 | 859 | 1,745 |
| | 357,600 | 34,844 | 22,394 |
| Working Capital, December 31 | (39,323) | (68,608) | (72,415) |
| Increase (Decrease) in Working Capital* (See page F-12) | $ 2,473 | $(29,285) | $ (3,807) |

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

| | (In Thousands) Year Ended December 31, | | |
|---|---|---|---|
| | 1968 | 1969 | 1970 |
| *Increase (Decrease) in Current Assets: | | | |
| Cash | ($ 4,469) | ($ 5,848) | $ 7,789 |
| Intercompany receivables | 3,727 | (2,129) | 15,695 |
| Other | (3,035) | 733 | 1,652 |
| Total | (3,777) | (7,244) | 25,136 |
| Increase (Decrease) in Current Liabilities: | | | |
| Short-term debt | (64,950) | 2,735 | 17,215 |
| Current maturities of long-term notes payable | 57,629 | 11,216 | 1,979 |
| Accounts payable and accrued liabilities | 8,480 | 2,119 | (714) |
| Accrued Federal income taxes | (7,409) | 5,971 | 10,463 |
| Total | (6,250) | 22,041 | 28,943 |
| Increase (Decrease) in Working Capital | $ 2,473 | ($29,285) | ($ 3,807) |

B. INVENTORIES

Inventories, at lower of cost or market (at cost as to whiskey, other spirits and wine) consist of the following:

| | Cost Method | | | | |
|---|---|---|---|---|---|
| | Total | First-in, First-out or Average | Standard with Percentage Adjustment to Approximate Actual | Retail Method | Last-in, First-out |
| December 31, 1969: | | | | | |
| Whiskey, other spirits and wine: | | | | | |
| In bond | $269,023,204 | $269,023,204 | — | — | — |
| Tax paid | 25,635,581 | 25,635,581 | — | — | — |
| Finished goods | 64,658,306 | 30,899,096 | $ 22,568,314 | $ 9,687,148 | $1,503,748 |
| Work in process | 20,690,996 | 9,214,673 | 9,294,627 | — | 2,181,696 |
| Raw materials and supplies | 58,318,913 | 45,945,641 | 11,511,762 | — | 861,510 |
| | $438,327,000 | $380,718,195 | $ 43,374,703 | $ 9,687,148 | $4,546,954 |
| December 31, 1970: | | | | | |
| Whiskey, other spirits and wine: | | | | | |
| In bond | $247,762,874 | $247,762,874 | — | — | — |
| Tax paid | 24,985,139 | 24,985,139 | — | — | — |
| Finished goods | 66,343,443 | 2,091,442 | $ 52,703,191 | $11,548,810 | — |
| Work in process | 21,502,839 | 2,518,251 | 18,984,588 | — | — |
| Raw materials and supplies | 68,134,376 | 37,651,284 | 30,483,092 | — | — |
| | $428,728,671 | $315,008,990 | $102,170,871 | $11,548,810 | — |

The in bond inventory is subject to payment of excise taxes upon removal from Government-controlled premises. Inventories used in computing cost of goods sold for the three years ended December 31, 1970 were as follows:

| | |
|---|---|
| December 31, 1967 | $110,156,236 |
| 1968 | 464,828,649 |
| 1969 | 438,327,000 |
| 1970 | 428,728,671 |

C. PROPERTY, PLANT AND EQUIPMENT

Provision for depreciation and amortization is computed principally by the straight-line method. The annual rates used are generally as follows:

| | |
|---|---|
| Buildings | 2% to 25% |
| Machinery, equipment, furniture and fixtures | 2% to 50% |

Leasehold improvements and buildings on leased land are amortized over term of the lease or estimated useful life of the asset, whichever is the shorter period. Depletion is charged to operations based on usage and estimated fibre deposit reserves. Cost of mine development is amortized by charges to operations based on an estimated useful life of eighty months.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

Maintenance and repairs are charged to costs of production or directly to income as incurred. Renewals and betterments which extend the lives of the assets are capitalized. At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

D. INTANGIBLES AND FRANCHISES

Intangibles represent the excess of unallocated cost of investments over equity in net assets of Schenley ($85,583,212) and other subsidiaries (1969—$34,198,763; 1970—$43,044,738). These net excess acquisition costs have been recognized by the management of Glen Alden as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at the respective dates of acquisition, the management of Glen Alden adopted the policy of not amortizing these excess purchase costs so long as there is no diminution in value of the related investments.

Other intangibles are being amortized over periods not exceeding twenty years.

Franchises consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits which, in the opinion of management, have continuing value and accordingly are not being amortized.

E. LONG-TERM NOTES AND DEBENTURES

Long-term notes at December 31, 1970 consist of the following:

| | Current | Long-term |
|---|---|---|
| Notes payable to banks, due February 1, 1971 (interest at ¾% above prime rate) (a) | $52,997,000 | — |
| Notes payable to banks in varying quarterly installments to March 31, 1973 (interest at ⅜% above prime rate) | 13,750,000 | $ 18,750,000 |
| 7¼% notes payable to insurance company, due $2,520,000 annually from 1975 through 1983 and balance of $12,320,000 due in 1984 (b) | — | 35,000,000 |
| 6½% notes payable to insurance companies, due March 1, 1979 | — | 71,500,000 |
| 3% notes payable to insurance companies, due November 1, 1975 (prepayments of $2,000,000 due annually until maturity) | 2,000,000 | 8,500,000 |
| 6¼% notes, due in varying annual installments to February 28, 1974 | 2,931,060 | 10,498,200 |
| Notes payable to foreign banks, due in varying installments to 1980 with interest rates from 3% to 10⅝% | 2,708,853 | 25,609,977 |
| 4⅞% mortgage and collateral trust sinking fund notes, due March 1, 1979 ($625,000 annual sinking fund payments due to January 1, 1978) (c) | — | 5,125,000 |
| 6½% mortgage and collateral note payable to insurance company due $75,000 monthly including interest to October 15, 1984 | 507,217 | 5,535,594 |
| 3% to 10% sundry indebtedness consisting principally of mortgages and other notes, due 1971 to 1986 | 3,934,201 | 18,753,366 |
| Total | $78,828,331 | $199,272,137 |
| 6% sinking fund subordinated debentures, due 1988 (annual sinking fund payments begin in 1979 and continue through 1987) | | $334,720,300 |

Subordinated convertible debentures consist of the following:

| | |
|---|---|
| 7% subordinated convertible debentures, due July 31, 1973 (d) | $10,000,000 |
| 20-year five per cent subordinated convertible debentures, series A, due September 30, 1986 (e) | 814,000 |
| Total | $10,814,000 |

(a) On February 1, 1971, $30,000,000 principal was paid and the maturity of the $22,997,000 remaining balance of the notes was extended to August 1, 1971.

(b) Issued with detachable warrants, expiring in 1984, to purchase 700,000 shares of common stock at $14.92 per share, subject to antidilution.

(c) Installment payment due January 1, 1971 was made during December 1970.

(d) Convertible into common stock at $17 per share, subject to antidilution.

(e) Convertible into $3.15 Cumulative Convertible Preferred Stock at $89.16 per share, subject to antidilution.

The aggregate of long-term notes and debentures maturing during the five years ending December 31, 1975 is approximately as follows: 1971, $78,828,000 (included in current liabilities); 1972, $35,410,000; 1973, $37,514,000; 1974, $10,818,000; and 1975, $8,343,000.

In January 1971, Glen Alden sold notes receivable from its subsidiary, Panacon Corporation, in the aggregate principal amount of $9,000,000 which bear interest at 8½% and are due in varying installments to June 30, 1974. Under certain circumstances, Glen Alden may be obligated to repurchase such notes at any time prior to maturity thereof.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

Agreements covering certain indebtedness of Glen Alden and its subsidiaries contain covenants concerning working capital position, additional indebtedness, limitations as to cash dividends, restrictions on transactions in capital stock, etc. At December 31, 1970 approximately $17,166,000 of consolidated retained earnings was available for the payment of cash dividends and redemptions or purchases of capital stock.

F. Income Taxes and Related Charge

See Note 2 to the statement of consolidated income of Glen Alden included elsewhere herein.

G. Preferred and Preference Stocks

Preferred and preference stocks, without par value, listed in the order of their preference are as follows at December 31, 1970:

| Class of Stock | Shares Authorized | Shares Outstanding | Conversion Rate | Common Shares Reserved |
|---|---|---|---|---|
| $2.25 Senior Cumulative Convertible | 724,405 | 386,232 | 3.5 to 1 | 1,351,812 |
| Class B Senior Cumulative Convertible ($3) | 2,200,000 | 770,695 | 7 to 1 | 5,394,865 |
| $3.15 Cumulative Convertible | 1,300,000 | 153,424 | 7.65 to 1 | 1,173,694 |
| Class C (Contingent Preference) | 335,398 | 18,642 | | 167,778 |
| Total | | | | 8,088,149 |

The first three preferred stocks listed above are entitled to cumulative dividends at the annual rates as indicated.

Until the occurrence of certain events which make dividends cumulative, the holders of Class C Stock are entitled to dividends only when and if declared and then at no greater than $3.15 per share each year.

The following table shows the redemption requirements of the outstanding preferred and preference stocks (substantially equivalent to aggregate liquidation requirement) and the resulting excess over the aggregate stated value of such stocks. There are no restrictions upon retained earnings resulting from such excesses.

| | Redemption Price Per Share | December 31, 1969 | December 31, 1970 |
|---|---|---|---|
| Redemption requirements: | | | |
| $2.25 Senior Cumulative Convertible | $ 52.50 | $ 20,277,180 | $ 20,277,180 |
| Class B Senior Cumulative Convertible ($3) | 107.00 | 83,936,257 | 82,464,365 |
| $3.15 Cumulative Convertible | 110.00 | 17,358,220 | 16,876,640 |
| Class C (Contingent Preference) | 90.00 | 1,998,810 | 1,677,780 |
| | | 123,570,467 | 121,295,965 |
| Aggregate stated value of preferred shares outstanding | | 7,235,101 | 6,947,724 |
| Excess of redemption requirement over aggregate stated value of preferred shares outstanding | | $116,335,366 | $114,348,241 |

The number of shares of treasury stock held was as follows:

| December 31, | Number of Shares of Class C (Contingent Preference) Stock | Number of Shares of Common Stock |
|---|---|---|
| 1967 | — | 1,316,586 |
| 1968 | — | 1,077,239 |
| 1969 | 212,674 | 921,540 |
| 1970 | 149,214 | 931,540 |

H. Stock Options and Bonus Plans

Glen Alden's 1965 Qualified Stock Option Plan authorizes the granting of 850,000 common shares at not less than fair market value at the time an option is granted. Options under the Plan become exercisable ratably over a period of not less than approximately three years and expire not more than five years after the date of granting but sooner in the event of death or the termination of employment.

As part of the poolings of interests with The B.V.D. Company, Inc. and Stanley Warner Corporation in 1967, Glen Alden granted options to purchase shares of its $3.15 Cumulative Convertible Preferred Stock and Class B Senior Cumulative Convertible ($3) Preferred Stock as substitutes for stock options held by employees of those companies. The Substitute Stock Options were granted for the number of shares of Glen Alden's stock which generally would have been issued in respect of the option shares of such companies had they been outstanding at the dates of the poolings of interests.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

A summary of the options which became exercisable and which were exercised during the three years ended December 31, 1970 and the shares under option at December 31, 1970 is as follows:

| | Number of Shares | Option Price (Grant Date) Range Per Share | Option Price (Grant Date) Total | Fair Market Value Range Per Share | Fair Market Value Total |
|---|---|---|---|---|---|
| COMMON | | | | | |
| Options which became exercisable during: | | | | (at date exercisable) | |
| 1968 | 135,112 | $ 8.49 to $15.75 | $2,077,842 | $ 12.63 to $ 19.50 | $2,489,868 |
| 1969 | 157,422 | 9.75 to 17.75 | 2,416,335 | 8.63 to 19.63 | 1,588,388 |
| 1970 | 149,264 | 7.75 to 17.75 | 2,143,781 | 5.13 to 8.75 | 863,187 |
| Options exercised during: | | | | (at date exercised) | |
| 1968 | 3,347 | $ 8.49 to $15.75 | $ 37,258 | $ 13.25 to $ 19.50 | $ 50,803 |
| 1969 | 2,500 | 10.57 to 15.75 | 32,264 | 15.88 to 19.63 | 46,450 |
| 1970 | None | | | | |
| Options outstanding as of December 31, 1970 | | | | | |
| Granted during: | | | | (at date granted) | |
| 1964 | 450 | $12.77 | $ 5,747 | $13.50 | $ 6,075 |
| 1966 | 5,000 | 9.88 | 49,375 | 9.88 | 49,375 |
| 1967 | 5,000 | 9.75 | 48,750 | 9.75 | 48,750 |
| 1968 | 382,684 | 13.75 to 17.00 | 6,034,304 | 13.75 to 17.00 | 6,034,304 |
| 1969 | 101,525 | 8.00 to 17.75 | 1,120,460 | 8.00 to 17.75 | 1,120,460 |
| 1970 | 265,750 | [illegible] 7.75 | 1,701,876 | 5.13 to 7.75 | 1,701,876 |
| | 760,409 | | $8,960,512 | | $8,960,840 |
| CLASS B SENIOR CUMULATIVE CONVERTIBLE ($3) PREFERRED | | | | | |
| Options which became exercisable during: | | | | (at date exercisable) | |
| 1968 | 36,680 | $17.49 to $97.96 | $2,717,935 | $ 91.25 to $137.00 | $3,577,781 |
| 1969 | 18,699 | 39.89 to 91.15 | 1,343,493 | 61.00 to 128.00 | 1,602,089 |
| 1970 | 17,461 | 39.89 to 91.15 | 1,294,211 | 47.50 to 52.50 | 856,267 |
| Options exercised during: | | | | (at date exercised) | |
| 1968 | 11,395 | $17.49 to $97.96 | $ 501,822 | $ 90.25 to $116.63 | $1,151,182 |
| 1969 | 2,639 | 18.20 to 39.89 | 95,726 | 64.50 to 137.25 | 263,489 |
| 1970 | 1,099 | 39.89 | 43,839 | 47.50 to 58.75 | 57,594 |
| Options outstanding as of December 31, 1970 | | | | | |
| Granted during: | | | | (at date granted) | |
| 1962 | 440 | $19.71 | $ 8,672 | $20.75 | $ 9,130 |
| 1966 | 18,427 | 39.89 to 50.05 | 757,405 | 39.89 to 50.05 | 757,405 |
| 1967 | 42,129 | 91.15 | 3,840,058 | 91.15 | 3,840,058 |
| | 60,996 | | $4,606,135 | | $4,606,593 |
| $3.15 CUMULATIVE CONVERTIBLE PREFERRED | | | | | |
| Options which became exercisable during: | | | | | |
| 1968 | None | | | | |
| 1969 | None | | | | |
| 1970 | None | | | | |
| Options exercised during: | | | | (at date exercised) | |
| 1968 | 12,493 | $42.54 to $80.25 | $ 886,311 | $ 95.00 to $155.00 | $1,603,816 |
| 1969 | 4,258 | 48.75 to 80.25 | 311,042 | 101.00 to 149.00 | 575,405 |
| 1970 | None | | | | |
| Options outstanding as of December 31, 1970 | | | | | |
| Granted during: | | | | (at date granted) | |
| 1965 | 599 | $77.10 | $ 46,183 | $77.10 | $ 46,183 |
| 1966 | 166 | 69.00 to 80.25 | 12,579 | 69.00 to 80.25 | 12,579 |
| | 765 | | $ 58,762 | | $ 58,762 |

The company makes no charges to income with respect to stock options.

Under Glen Alden's stock bonus plans, an aggregate of 160,000 shares have been allocated and issued, and 30,000 shares were available for allocation at December 31, 1970. The excess of market value of such shares on the date of allocation over the par value thereof is being charged to income ratably over periods not exceeding eight years.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS—(Continued)

### I. Retirement Plans

Glen Alden and its subsidiaries have various contributory and non-contributory retirement plans covering eligible employees. Unfunded prior service costs amounted to approximately $14,400,000 at December 31, 1970 of which $14,300,000 is being funded over various periods not exceeding thirty years. The amount charged to income and production costs under the plans was $2,380,000, $2,760,000 and $4,116,000 respectively for 1968, 1969 and 1970. It is the policy of Glen Alden to fund pension cost accrued, except for Schenley which funds pension cost as required under federal income tax regulations. Effective January 1, 1970 a plan of one of the subsidiaries was amended, providing additional benefits for participants and reducing the waiting period required to participate in the plan. In addition, the interest assumptions were revised. These changes had the effect of increasing pension expense for the year 1970 by approximately $400,000. As of December 31, 1970, the actuarially computed value of vested benefits under applicable plans exceeded the total of the related pension funds and balance sheet accruals by approximately $2,800,000.

### J. Leases

At December 31, 1970, Glen Alden and its subsidiaries were obligated, under leases expiring after December 1973, for the payment of minimum annual rentals aggregating $12,100,000 plus, in certain instances, additional rentals based upon sales, real estate taxes, insurance, etc. The leases have varying expiration dates to 2029, with the majority of such rentals expiring by 1995.

### K. Guarantees, Commitments, Etc.

Glen Alden was guarantor, as of December 31, 1970, in the amount of approximately $8,000,000 as to mortgage notes (having varying maturities to 1984) previously held by Glen Alden or subsidiaries.

Glen Alden has guaranteed approximately $18,000,000 of industrial revenue bonds and other loans made to a former subsidiary. The purchaser of the subsidiary has agreed to indemnify Glen Alden against any loss under the guarantees.

On March 29, 1971 Schenley became subject to an anti-trust consent decree pursuant to which, on May 10, 1971, Schenley divested itself of its 100% stock interest in The Buckingham Corporation to Northwest Industries, Inc. The decree prohibits Schenley for a period of ten years, from acquiring, without government or court approval, rights to import and sell or produce and sell any brand of Scotch whisky other than a brand produced by or for John Dewar & Sons, Ltd. and from acquiring, without government or court approval, any stock, assets or other financial interest in any company (other than Seager Evans & Co., Ltd. or any of its subsidiaries) which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States.

On May 10, 1971, Schenley sold all of the stock of Buckingham to Northwest Industries, Inc. for $120,000,000, consisting of $103,000,000 in cash and $17,000,000 in 9½% notes of Northwest maturing March 1, 1979. The purchase price is subject to reduction by reason of Schenley's guarantee of a specified amount of depletions (i.e., case sales by wholesalers to retailers) of Buckingham products during the five years ending December 31, 1975. In connection with the sale, Schenley and Glen Alden guaranteed $23,000,000 principal amount of Northwest's 9½% notes maturing March 1, 1986 which were simultaneously sold by Northwest to three insurance companies to finance part of the cash portion of the purchase price. This guarantee is also applicable to the $17,000,000 of Northwest notes acquired by Schenley in the event that Schenley sells such notes. The $40,000,000 aggregate principal amount of notes acquired by Schenley or guaranteed by Schenley and Glen Alden are subordinated in right of payment to $80,000,000 of long-term bank notes of Northwest issued in connection with the transaction and are secured by a pledge of all of the stock of Buckingham, which pledge is subject to a prior pledge of such stock to secure the $80,000,000 of Northwest's bank notes. As between Schenley and Glen Alden, Schenley is primarily liable on the guarantee. The sale of Buckingham resulted in a significant gain to Schenley. Buckingham revenues for 1970 were approximately $60,093,000 and net income was approximately $8,710,000; Glen Alden's equity in such net income was approximately 86%.

Glen Alden and its subsidiaries are defendants in a number of other lawsuits and claims, including other antitrust actions. It is the judgment of management, based on counsel's opinions as to the merits of these suits and claims, that they should not result in liability which in the aggregate would have a material adverse effect on Glen Alden's consolidated financial statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

**L. Supplementary Profit and Loss Information**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **1968** | **1969** | **1970** |
| **Maintenance and repairs:** | | | |
| Charged to cost of sales and operating expenses | $ 9,395,532 | $ 12,680,452 | $ 12,193,052 |
| Charged to other operating accounts | 816,308 | 1,104,898 | 1,165,220 |
| Charged to other accounts (production costs, etc.) | 996,366 | 2,812,232 | 3,155,525 |
| Total | $ 11,208,206 | $ 16,597,582 | $ 16,513,797 |
| **Depreciation, depletion, and amortization:** | | | |
| Property, plant, and equipment | $ 11,485,243 | $ 14,567,076 | $ 14,720,044 |
| Less amortization of excess of equity in net assets over cost of the investments in acquired companies | (311,000) | (242,000) | (230,000) |
| Net | $ 11,174,243 | $ 14,325,076 | $ 14,490,044 |
| Intangibles—charged to other operating accounts | $ 339,265 | $ 516,334 | $ 432,457 |
| **Taxes, other than Federal income taxes:** | | | |
| Federal excise, rectification taxes and duties on imported products | $ 89,057,721 | $288,612,178 | $298,890,904 |
| Payroll taxes | 10,132,327 | 12,802,236 | 13,638,022 |
| State liquor taxes | 6,723,412 | 19,603,962 | 23,235,842 |
| Property taxes | 4,203,248 | 8,809,141 | 9,515,277 |
| Other taxes | 3,620,796 | 11,749,559 | 13,125,500 |
| Total | $113,737,504 | $341,577,076 | $358,405,545 |
| Charged to cost of sales and operating expenses | $ 32,994,495 | $ 58,874,771 | $ 72,664,215 |
| Charged to other operating accounts | 4,936,318 | 8,205,391 | 10,024,609 |
| Charged to other accounts (production costs, etc.) | 75,806,691 | 274,496,914 | 275,716,721 |
| Total | $113,737,504 | $341,577,076 | $358,405,545 |
| **Management and service contract fees:** | | | |
| Charged to cost of sales and operating expenses | $ 161,854 | $ 270,478 | $ 103,493 |
| Charged to other operating accounts | 47,495 | 115,230 | 659,524 |
| Total | $ 209,349 | $ 385,708 | $ 763,017 |
| **Rents:** | | | |
| Charged to cost of sales and operating expenses | $ 6,426,544 | $ 6,464,311 | $ 8,094,146 |
| Charged to other operating accounts | 6,417,057 | 8,672,187 | 10,128,871 |
| Charged to other accounts (production costs, etc.) | 62,947 | 867,433 | 1,146,341 |
| Total | $ 12,906,548 | $ 16,003,931 | $ 19,369,358 |
| **Royalties:** | | | |
| Charged to cost of sales and operating expenses | $ 107,432 | $ 107,083 | $ 176,744 |
| Charged to other operating accounts | 255,933 | 328,849 | 164,707 |
| Total | $ 363,365 | $ 435,932 | $ 341,451 |

Amounts shown charged to "production costs, etc." apply in part to expenses incurred in the production and storage of maturing whiskey and other spirits; under the methods of accounting followed by Schenley and its subsidiaries, such expenses become a part of inventory cost and are charged to profit and loss when such products are sold.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Concluded)

M. Other Subsequent Events

On January 28, 1971 Glen Alden sold its wholly-owned subsidiary RKO-Stanley Warner Theatres, Inc. for $21,500,000, subject to certain adjustments. The net proceeds of such sale closely approximated the carrying value of the assets sold after consideration of related credits included in "Other Assets—Intangibles". See Note 1 to the Statement of Consolidated Income of Glen Alden herein for information concerning approximately $23,000,000 which was credited to "Other Assets—Intangibles" in 1968 and 1969.

On February 26, 1971 Schenley sold certain assets connected with its wine business (including certain inventories of wines, vineyards, winery facilities and trademarks for wine products) for $14,000,000, subject to adjustment. Glen Alden's equity in the gain on the sale of the wine business assets will be applied to "Other Assets—Intangibles."

The sale of Buckingham (see note on Guarantees, Commitments, etc.) resulted in a significant gain to Schenley and it is presently anticipated that a major portion of Glen Alden's equity in said gain will serve to reduce intangibles.

Glen Alden has proposed a reorganization with Schenley under the terms of which Schenley will become a wholly-owned subsidiary of Glen Alden (except for the Schenley cumulative preference stock which will remain outstanding). In the proposed reorganization $5.00 in cash and $30.00 principal amount of 7½% 14-year Glen Alden sinking fund subordinated debentures will be issued for each share of Schenley common stock and $4.50 in cash and $27.00 principal amount of such debentures will be issued for each share of Schenley $1.40 cumulative convertible preferred stock. The proposed reorganization is subject to the execution of a definitive agreement, approval of lending institutions and Schenley's shareholders, and certain other contingencies. Several derivative stockholders' suits have been instituted against Schenley, Glen Alden, and directors of the two companies, alleging, among other things, that the value of the securities and cash to be received by minority stockholders of Schenley pursuant to the reorganization is unfairly low, and seeking preliminary and final injunctions against the reorganization, compensatory and punitive damages and attorneys' fees. See "Proposed Reorganization—Litigation in Respect of the Proposed Reorganization" elsewhere herein.

See "History and Business of Glen Alden—General" and "History and Business of Schenley—Recent Developments" elsewhere herein.

A1034

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Schenley Industries, Inc.:

We have examined the consolidated balance sheet of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1969 and 1970, and the related statements of consolidated income, retained earnings, capital surplus, and changes in working capital for the four months and two years ended December 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of wholly-owned subsidiaries in Canada, which are included in consolidation, nor the financial statements of Seager Evans & Co., Ltd., a 75%-owned British subsidiary which is not consolidated. With respect to such subsidiaries, we have been furnished with reports of other accountants.

In our opinion, based on our examination and the above-mentioned reports of the other accountants, the above-mentioned financial statements present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1969 and 1970, and the results of their operations and changes in working capital for the four months and two years ended December 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Two Broadway
New York 10004
February 25, 1971
(certain information in Note 9 to the Financial Statements being as of a later date.)

A1035

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Schenley Industries, Inc.:

We have examined the statement of consolidated income of Schenley Industries, Inc., (a Delaware corporation) and subsidiary companies for the three years ended August 31, 1968, and the related statements of retained earnings and capital surplus and changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of The Buckingham Corporation and certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co., Ltd. (a 75% owned British subsidiary not consolidated). We have been furnished with the reports of other auditors with respect to such subsidiaries.

In our opinion, based upon our examination and the reports of other auditors referred to above, the accompanying statements of consolidated income, retained earnings and capital surplus present fairly the results of operations of Schenley Industries, Inc. and subsidiary companies for the three years ended August 31, 1968, and changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied (after retroactive restatement for the change described in note (c) to the statement of consolidated income) consistently during the periods.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
October 31, 1968.
(except with respect to the accounting for the acquisition of 47.34% of The Buckingham Corporation, as discussed in Note 1 as to which the date is December 15, 1969).

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BUCKINGHAM CORPORATION:

We have examined the balance sheet of The Buckingham Corporation as of August 31, 1968 and the related statements of income and retained earnings for the three years then ended and the statement of changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements (not presented separately herein) present fairly the financial position of The Buckingham Corporation at August 31, 1968 and the results of its operations for the three years then ended and the changes in its working capital for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

Two Broadway
New York 10004
September 27, 1968

A1037

## REPORT OF CHARTERED ACCOUNTANTS

TO: CANADIAN SCHENLEY DISTILLERIES, LTD.

We have examined the consolidated balance sheet of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of December 31, 1969 and 1970, and the related statements of Consolidated Income, for the five years and four months ended December 31, 1970, and Retained Earnings, for the three years and four months ended December 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examination, the financial statements referred to above (not separately presented herein) present fairly the consolidated financial position of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of December 31, 1969 and 1970, and the results of their operations for the five years and four months ended December 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

SAMSON, BELAIR, COTE,
LACROIX & ASSOCIES
Chartered Accountants

Montreal, February 15, 1971.

A1038

## REPORT OF CHARTERED ACCOUNTANTS

To the Members of Seager Evans & Co., Limited

We have examined the consolidated balance sheets at December 31, 1969 and 1970, and the related consolidated profit and loss account for the three years ended August 31, 1968, the sixteen months ended December 31, 1969 and the year ended December 31, 1970 of Seager Evans & Co., Limited and subsidiaries. We have obtained all the information and explanations which we considered necessary. Our examination was made in accordance with generally accepted auditing standards and included all procedures necessary in the circumstances. The accounts of the principal subsidiary companies have been audited by other auditing firms whose reports thereon have been furnished to us.

In our opinion, based upon our examination and the aforementioned reports of other auditing firms, such financial statements and the notes thereto, (not presented separately herein) present fairly the consolidated financial position of Seager Evans & Co., Limited and subsidiaries at December 31, 1969 and 1970, and the results of the group for the three years ended August 31, 1968, the sixteen months ended December 31, 1969 and the year ended December 31, 1970 in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

London, England.
10 March, 1971

# SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## CONSOLIDATED BALANCE SHEET

## December 31, 1969 and 1970

### ASSETS

| | December 31, 1969 (Note 1) | December 31, 1970 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 50,126,228 | $ 52,077,642 |
| Certificates of deposit | 4,000,000 | 4,000,000 |
| Marketable securities, at cost which approximates market | 12,356,824 | 15,888,198 |
| Notes and accounts receivable | 133,441,819 | 127,965,427 |
| Less reserves | 1,697,027 | 1,988,200 |
| | 131,744,792 | 125,977,227 |
| Inventories (Note 2): | | |
| Whiskey, other spirits, and wine, at cost: | | |
| In bond | 269,023,204 | 247,762,874 |
| Tax paid | 25,635,581 | 24,985,139 |
| Other products, materials and supplies, at lower of cost or market | 25,176,201 | 30,126,775 |
| | 319,834,986 | 302,874,788 |
| Total current assets | 518,062,830 | 500,817,855 |
| INVESTMENTS (Notes 1 and 10): | | |
| Seager Evans & Co., Ltd., at equity | 19,540,950 | 19,572,949 |
| Glen Alden Corporation 6% debentures due 1988, at cost | 11,604,779 | 13,784,126 |
| Other investments etc., at cost | 6,881,822 | 9,238,582 |
| | 38,027,551 | 42,595,657 |
| PLANT AND PROPERTY (Note 3): | | |
| Land, buildings, machinery, equipment, etc., at cost | 117,719,546 | 119,767,558 |
| Less accumulated depreciation and amortization | 68,537,070 | 70,202,601 |
| | 49,182,476 | 49,564,957 |
| PREPAID AND DEFERRED CHARGES | 3,567,999 | 2,855,644 |
| GOODWILL, BRANDS, AND TRADEMARKS (Notes 1 and 8) | 18,713,656 | 18,538,882 |
| | $627,554,512 | $614,372,995 |

The accompanying Notes To Consolidated Financial Statements are an integral part of the above Consolidated Balance Sheet.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1969 and 1970

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 1969 (Note 1) | December 31, 1970 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable—short-term | $136,400,000 | $110,750,000 |
| Current maturity of long-term debt (Note 5) | 2,000,000 | 2,000,000 |
| Accounts payable—trade | 21,291,483 | 19,370,131 |
| Accrued payrolls and employee benefits | 2,708,526 | 2,446,992 |
| Accrued interest payable | 1,689,982 | 1,688,286 |
| Dividends payable | 3,731,742 | 3,724,720 |
| Sundry taxes, including Federal excise taxes | 18,411,189 | 22,110,651 |
| Accrued Federal income taxes | 8,222,564 | 5,597,241 |
| Sundry accrued and other current liabilities | 8,139,211 | 10,546,602 |
| Total current liabilities | 202,594,697 | 178,234,623 |
| LONG-TERM DEBT (Note 5) | 82,000,000 | 80,000,000 |
| DEFERRED TAXES (Note 11) | 3,850,772 | 2,254,902 |
| OTHER LIABILITIES | 5,587,927 | 7,488,181 |
| SHAREHOLDERS' EQUITY (Notes 1, 5 and 6): | | |
| Cumulative Preference Stock (Preference on involuntary liquidation $1,975,940) | 69,158 | 69,158 |
| $1.40 Cumulative Convertible Preferred Stock (Preference on involuntary liquidation $65,893,200 and $60,932,736) | 2,745,550 | 2,538,864 |
| Common Stock—authorized 20,000,000 shares of $.93⅓ par value, issued 9,418,133 and 9,604,053 shares | 8,790,257 | 8,963,783 |
| Capital Surplus | 62,240,469 | 62,404,668 |
| Retained Earnings | 294,473,149 | 307,216,283 |
| Total | 368,318,583 | 381,192,756 |
| Less treasury Common Stock (1,612,276 shares) and Cumulative Preference Stock and $1.40 Cumulative Convertible Preferred Stock, at cost | 34,797,467 | 34,797,467 |
| | 333,521,116 | 346,395,289 |
| | $627,554,512 | $614,372,995 |

CONTINGENT LIABILITIES (Notes 2 and 9)

The accompanying Notes To Consolidated Financial Statements are an integral part of the above Consolidated Balance Sheet.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED RETAINED EARNINGS (Note 1)

**For the Year Ended August 31, 1968, the Four Months Ended December 31, 1968 and the Two Years Ended December 31, 1970**

| | Year Ended August 31, 1968 | Four Months Ended December 31, 1968 | Year Ended December 31, 1969 | Year Ended December 31, 1970 |
|---|---|---|---|---|
| Balance—Beginning of Period | $265,338,672 | $285,065,685 | $284,064,772 | $294,473,149 |
| Add—Amount Resulting from a Pooling of Interests | 11,896,009 | — | — | — |
| Net Income for the Period | 21,016,414 | 4,923,550 | 25,262,886 | 27,182,579 |
| TOTAL | 298,251,095 | 289,989,235 | 309,327,658 | 321,655,728 |
| Deduct— | | | | |
| Cash Dividends Declared: | | | | |
| Cumulative Preference Stock (annual rate of $.50 per share) | 275,747 | 50,620 | 99,783 | 98,554 |
| $1.40 Cumulative Convertible Preferred Stock (annual rate of $1.40 per share) (net of Parent Company Contribution of $368,888 in 1970) | — | — | 946,782 | 3,260,500 |
| Common Stock ($1.25, $.65, $1.35, and $1.40 per share, respectively) | 9,615,003 | 5,050,178 | 10,513,284 | 11,080,391 |
| Cash Dividends of Pooled Company Prior to Acquisition | 3,294,660 | 823,665 | 3,294,660 | — |
| TOTAL | 13,185,410 | 5,924,463 | 14,854,509 | 14,439,445 |
| Balance—End of Period | $285,065,685 | $284,064,772 | $294,473,149 | $307,216,283 |

### STATEMENT OF CONSOLIDATED CAPITAL SURPLUS (Note 1)

**For the Year Ended August 31, 1968, the Four Months Ended December 31, 1968 and the Two Years Ended December 31, 1970**

| | Year Ended August 31, 1968 | Four Months Ended December 31, 1968 | Year Ended December 31, 1969 | Year Ended December 31, 1970 |
|---|---|---|---|---|
| Balance—Beginning of Period | $59,318,361 | $62,854,449 | $62,882,918 | $62,240,469 |
| Add— | | | | |
| Amount Resulting from a Pooling of Interests | 3,350,481 | — | — | — |
| Excess of Option Price Over Par Value of Common Stock Sold and from Conversion of Cumulative Convertible Preference Stock into Common Stock | 185,607 | 28,469 | 67,551 | — |
| Excess Par Value Arising upon Conversion of $1.40 Cumulative Convertible Preferred Stock into Common Stock | — | — | — | 33,087 |
| Capital Contribution by Parent Company | — | — | — | 131,112 |
| | 62,854,449 | 62,882,918 | 62,950,469 | 62,404,668 |
| Deduct—Costs Incident to Pooling of Interests | — | — | 710,000 | — |
| Balance—End of Period | $62,854,449 | $62,882,918 | $62,240,469 | $62,404,668 |

The accompanying Notes To Consolidated Financial Statements are an integral part of the above statements.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED CHANGES IN WORKING CAPITAL (Note 1)

| | Year ended August 31, 1968 | Four Months ended December 31, 1968 | Year ended December 31, 1969 | Year ended December 31, 1970 |
|---|---|---|---|---|
| Working Capital at Beginning of Period | $323,568,329 | $324,062,882 | $321,423,589 | $315,468,133 |
| Additions: | | | | |
| Net Income | 21,016,414 | 4,923,550 | 25,262,886 | 27,182,579 |
| Depreciation | 3,579,526 | 1,266,667 | 4,026,252 | 3,765,964 |
| Deferred Taxes | (1,667,497) | (224,128) | 983,667 | (86,209) |
| Undistributed share of Seager Evans & Co., Ltd. earnings | (589,011) | (213,643) | (642,527) | (31,999) |
| | 22,339,432 | 5,752,446 | 29,630,278 | 30,830,335 |
| Prepaid and Deferred Charges | 1,006,376 | (573,851) | (44,511) | 712,355 |
| Other Liabilities | 2,409,694 | 521,058 | 1,356,162 | 1,900,254 |
| Other—net | 287,998 | 197,454 | 144,284 | (1,203,848) |
| | 26,043,500 | 5,897,107 | 31,086,213 | 32,239,096 |
| Deductions: | | | | |
| Cash dividends | 13,185,410 | 5,924,463 | 14,854,509 | 14,439,445 |
| Additions to plant and property—net | 7,180,281 | 1,380,332 | 3,987,872 | 4,148,445 |
| Reduction in long-term debt | 4,750,000 | 1,250,000 | 2,000,000 | 2,000,000 |
| Additions to investments, etc. | 433,256 | (18,395) | 15,489,288 | 4,536,107 |
| Costs incident to pooling of interests | — | — | 710,000 | — |
| | 25,548,947 | 8,536,400 | 37,041,669 | 25,123,997 |
| Working Capital at End of Period | 324,062,882 | 321,423,589 | 315,468,133 | 322,583,232 |
| Increase (Decrease) in Working Capital* | $ 494 553 | $ (2,639,293) | $ (5,955,456) | $ 7,115,099 |
| *Increase (Decrease) in Current Assets: | | | | |
| Cash | $ 1,845,255 | $ 4,022,058 | $ 28,612,957 | $ 1,951,414 |
| Certificates of deposit | (2,900,000) | (100,000) | 2,000,000 | — |
| Marketable securities | 7,765,438 | (3,744,297) | (16,729,799) | 3,531,374 |
| Notes and accounts receivable less reserves | 7,328,515 | 2,863,310 | 4,183,641 | (5,767,565) |
| Inventories | 24,552,576 | (2,313,517) | (20,660,590) | (16,960,198) |
| | 38,591,784 | 727,554 | (2,593,791) | (17,244,975) |
| Decrease (Increase) in Current Liabilities: | | | | |
| Notes payable—short-term | (22,300,000) | (34,500,000) | 3,600,000 | 25,650,000 |
| Current maturity of long-term debt | (2,250,000) | (1,250,000) | 2,750,000 | — |
| Accounts payable—trade | (7,964,671) | 9,339,428 | (1,439,650) | 1,921,352 |
| Accrued payrolls and employee benefits | (736,751) | 500,466 | (801,062) | 261,534 |
| Accrued interest payable | (1,232,029) | 396,162 | 67,490 | 1,696 |
| Dividends payable | — | (2,585,523) | (1,146,219) | 7,022 |
| Sundry taxes, including federal excise taxes | (4,793,863) | 20,198,196 | (3,790,606) | (3,699,462) |
| Accrued federal income taxes | 4,532,618 | 2,276,632 | (3,047,459) | 2,625,323 |
| Sundry accrued and other current liabilities | (3,352,535) | 2,257,792 | 445,841 | (2,407,391) |
| | (38,097,231) | (3,366,847) | (3,361,665) | 24,360,074 |
| Increase (Decrease) in Working Capital | $ 494,553 | $ (2,639,293) | $ (5,955,456) | $ 7,115,099 |

The accompanying Notes To Consolidated Financial Statements are an integral part of the above statement.

# SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principles of Consolidation

All subsidiary companies, other than Seager Evans & Co., Ltd., and certain other wholly-owned foreign subsidiaries, have been consolidated in the accompanying financial statements.

The financial statements of Canadian subsidiaries have been consolidated herein on the basis of translating current assets (other than inventories held for sale in the United States and other non-Canadian markets) and liabilities at the rates prevailing at December 31, 1970 and December 31, 1969, while property, plant and equipment and inventories held for sale in the United States and other non-Canadian markets have been translated at historical U. S. dollar cost.

The increase in the exchange value of the Canadian dollar after it was unpegged on June 1, 1970 resulted in a nominal increment of values on translation of the accounts of Schenley's Canadian subsidiaries into U. S. currency. Such increment was reserved.

The accounts of Seager Evans & Co., Ltd., a subsidiary in Great Britain in which Schenley owns 75% of the outstanding capital stock, have not been consolidated herein. Schenley states its investment at the amount of its equity in underlying net assets, as reported in the consolidated financial statements of Seager, and has included in "Other income—net" $1,677,264, $1,680,044, $1,528,584 for the three years ended August 31, 1968, $856,891 for the four months ended December 31, 1968 and $1,362,527 and $860,000 for the two years ended December 31, 1970, respectively, representing its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager. The computation of such equity is based upon financial statements in pounds sterling, translated similarly to those of the Canadian subsidiaries explained above. Cash dividends of $720,000 and $828,000, in the years ended December 31, 1969 and December 31, 1970 respectively, have been credited to Schenley's investment in Seager. The carrying value of Schenley's investment in Seager exceeded cost by $10,606,948, and $10,638,947, respectively, for the years ended December 31, 1969 and December 31, 1970. These amounts have been included in Consolidated Retained Earnings.

Separate financial statements have not been presented for Seager, or other non-consolidated subsidiaries since, considered in the aggregate as a single subsidiary, they do not constitute a significant subsidiary. In preparation of the consolidated financial statements, intercompany transactions were eliminated.

On May 15, 1969, The Buckingham Corporation, a subsidiary in which Schenley formerly owned 52.66% of the capital stock, became a wholly-owned subsidiary of BHM Industries, Inc., a then newly formed company. As a result of this transaction Schenley then owned 52.66% of the capital stock of BHM Industries, Inc.

On December 15, 1969, pursuant to an agreement of merger between Schenley and BHM Industries, Inc., Schenley acquired the minority equity of 47.34% in BHM Industries, Inc., such transaction being accounted for as a pooling of interests. Retroactive effect has been given to this transaction in the consolidated financial statements.

To facilitate comparisons with the year 1970, certain minor amounts in the prior periods have been reclassified with no effect on net income.

The amounts at which investments in the capital stock of subsidiaries consolidated were carried on the books of Schenley were $74,341,165 at December 31, 1969 and $80,719,720 at December 31, 1970 less than Schenley's equity in the net assets of such subsidiaries, as shown by the books of the latter at those dates. In the consolidated financial statements, this difference has been treated as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 1969 | | 1970 | |
| Included in consolidated retained earnings | | $91,660,899 | | $98,014,480 |
| Added to: | | | | |
| Goodwill, brands, and trademarks | $18,301,030 | | $18,126,257 | |
| Plant and property | 377,000 | | 377,000 | |
| Total | 18,678,030 | | 18,503,257 | |
| Deducted from inventories—intercompany profits in inventory | 1,358,296 | 17,319,734 | 1,208,497 | 17,294,760 |
| | | $74,341,165 | | $80,719,720 |

### 2. Inventories

The inventories in bond, classified as current assets in accordance with the general practice of the industry, include whiskey and other spirits, which, in the normal course of business, will remain in storage to be aged for a period of several years. It is not possible to state the amount of the inventory which will be realized within one year.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Federal, s[illegible] and other liquor taxes and duties (payable upon withdrawal of the products from bond or as otherwise requ[illegible] under existing laws) which constitute a lien, substantial in amount, on the inventories of whiskey, other spirits, and wine carried on the books of Schenley and its subsidiaries, cannot be determined definitely at the present time. Inasmuch as these taxes and duties are not payable until withdrawal or removal of such products from Government controlled premises, and in accordance with the practice of the industry, the liability has not been reflected in the accounts.

Costs of bulk whiskies are kept by type of whiskey and date of production (i.e., by seasons—spring and fall). Warehousing, insurance, and barrel costs applicable to whiskey and spirits held for aging, and taxes and duties, when paid, are included in inventory.

The aggregate amounts of inventories at the beginning and end of the periods for which the consolidated income statement is included herein, were as follows:

| | |
|---|---|
| August 31, 1965 | $290,621,446 |
| August 31, 1966 | 311,105,338 |
| August 31, 1967 | 318,256,517 |
| August 31, 1968 | 342,809,093 |
| December 31, 1968 | 340,495,576 |
| December 31, 1969 | 319,834,986 |
| December 31, 1970 | 302,874,788 |

3. Plant and Property

A summary of plant and property and the related accumulated depreciation and amortization is as follows:

| | Gross Assets December 31, | | Accumulated Depreciation and Amortization December 31, | |
|---|---|---|---|---|
| | 1969 | 1970 | 1969 | 1970 |
| Land | $ 3,434,462 | $ 3,700,375 | | |
| Buildings and improvements | 54,146,743 | 55,698,738 | $29,578,537 | $30,287,900 |
| Machinery and equipment | 50,574,087 | 51,047,627 | 34,818,665 | 35,538,296 |
| Furniture and fixtures | 3,911,630 | 4,043,912 | 3,001,095 | 3,132,049 |
| Other | 5,652,624 | 5,276,906 | 1,138,773 | 1,244,356 |
| | $117,719,546 | $119,767,558 | $68,537,070 | $70,202,601 |

The amount at which plant and property is carried does not purport to represent its present-day replacement or realizable value.

Neither the additions at cost, amounting to $4,849,136 and $4,790,820, nor the retirements and sales, amounting to $4,505,531 and $2,742,808 for the years ended December 31, 1969 and December 31, 1970, respectively, exceeded 10% of the closing balances at the end of either year.

For accounting purposes, depreciation is provided principally on the straight-line method at specific rates applied to individual assets. The rates of depreciation used are generally as follows:

| | |
|---|---|
| **Buildings** | 2%–8% |
| **Machinery and equipment** | 4%–25% |
| **Other** | 2½%–33⅓% |
| Leasehold improvements | Duration of lease or life of improvement, whichever is shorter |

Provision for depreciation of property used in production and storage of maturing spirits is added to the cost of the inventory.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Depreciation and amortization of property, plant and equipment provided during the three years ended August 31, 1968, the four months ended December 31, 1968 and the two years ended December 31, 1970 is as follows:

| | Amount |
|---|---|
| Year ended August 31: | |
| 1966 | $3,330,006 |
| 1967 | 3,377,364 |
| 1968 | 3,579,526 |
| Four months ended December 31, 1968 | 1,266,667 |
| Year ended December 31: | |
| 1969 | 4,026,252 |
| 1970 | 3,765,964 |

Maintenance and repair costs and renewals which do not involve substantial betterment are charged to costs of production or directly to expense. When an item or unit of property is replaced and substantial betterment results, the cost of the replaced property is removed from the property account and the cost of the replacement property is capitalized.

At the time of retirement or sale of properties, an amount equivalent to depreciation of the asset, calculated at specific depreciation rates, is transferred from the property account to the reserve for depreciation and the remaining balance, if any, in the property account, less salvage value, is charged or credited to income.

4. Investment Credit

Schenley and its U. S. subsidiaries have adopted the policy of reducing the provision for Federal income tax by the full amount of the estimated allowable investment credit. The amount of such reduction in the provision for Federal taxes on income is as follows:

| | Amount |
|---|---|
| Year ended August 31: | |
| 1966 | $717,311 |
| 1967 | 578,593 |
| 1968 | 657,281 |
| Four months ended December 31, 1968 | 142,316 |
| Year ended December 31: | |
| 1969 | 400,151 |
| 1970 | 204,816 |

5. Long-Term Debt

Long-term debt was comprised of the following loans from insurance companies:

| | December 31, | |
|---|---|---|
| | 1969 | 1970 |
| Due March 1, 1979 at 6.5% | $71,500,000 | $71,500,000 |
| Due November 1, 1975 at 3% (prepayments of $2,000,000 due annually) | 10,500,000 | 8,500,000 |
| | $82,000,000 | $80,000,000 |

Aggregate maturities for the four years subsequent to December 31, 1970 are $2,000,000 per year. In the fifth year, 1975, aggregate maturity is $2,500,000.

The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings. Under the agreements, payments for dividends and the acquisition of Schenley capital stock are restricted to the sum of $79,909,736 at December 31, 1970.

6. Preference, Preferred and Common Stocks

The preference and preferred stocks comprised the following:

| | December 31, 1969 | | December 31, 1970 | |
|---|---|---|---|---|
| | Cumulative Preference Stock | $1.40 Cumulative Convertible Preferred Stock | Cumulative Preference Stock | $1.40 Cumulative Convertible Preferred Stock |
| Par Value | $.35 | $1.00 | $.35 | $1.00 |
| Authorized | 4,000,000 | 2,745,550 | 4,000,000 | 2,745,550 |
| Issued | 197,594 | 2,745,550 | 197,594 | 2,538,864 |
| Held in Treasury | 486 | 3,100 | 486 | 3,100 |
| Annual Dividend Rate | $.50 | $1.40 | $.50 | $1.40 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Cumulative Preference Stock (which is senior) is redeemable at $10.00 per share, and the $1.40 Cumulative Convertible Preferred Stock at $24.00 per share on or after March 1, 1971. The aggregate redemption requirements (equivalent to aggregate liquidation requirements) exceeded the stated values by $60,300,654 at December 31, 1970. There is no restriction on retained earnings due to such excess. Each share of $1.40 Cumulative Convertible Preferred Stock is convertible into 9/10 of a share of Common Stock. Common Stock reserved for such conversion rights amounted to 2,284,977 shares at December 31, 1970. During the year ended December 31, 1970, 185,920 shares of Common Stock were issued upon conversion of 206,686 shares of $1.40 Cumulative Convertible Preferred Stock.

Schenley's Employees Share Purchase Plan, which terminated in the year ended December 31, 1969, provided for sale of shares of Common Stock to certain key employees, including officers, at prices not less than 95% of fair market value at the respective dates on which options to purchase such shares were granted (after December 31, 1963, such price being 100% of fair market value).

During the year ended December 31, 1969, options to purchase 750 shares of common stock became exercisable and options to purchase 5,400 shares were exercised. Details are shown in the following tabulation:

| | During the year ended December 31, 1969 | |
|---|---|---|
| | Options Became Exercisable | Options Were Exercised |
| Fiscal Year Granted | 1965 | 1963-1965 |
| Number of Shares | 750 | 5,400 |
| Option Price—Per Share | $15.4167 | $12.5083-$15.4167 |
| Total | $11,562.50 | $71,483.41 |
| Fair Market Value—Per Share (1) | $32.875 | $36.50-$43.75 |
| Total | $24,656.25 | $208,350.00 |

(1) Average of high and low on New York Stock Exchange on the date the options became exercisable or were exercised.

For each Common Share purchased upon exercise of an option, par value was credited to Common Stock and the balance to capital surplus. No charge was reflected in the income statement relative to any option.

7. Retirement Plans

Schenley has a trusteed noncontributory pension plan for most of its United States employees. The total pension cost for the year ended December 31, 1970, charged to production costs and operating expenses, was $2,038,000, which includes amortization over a 30-year period of the amount relating to prior service cost which exceeded the pension fund plus balance sheet accruals at January 1, 1970. Schenley's policy is to fund pension costs as required under federal income tax regulations. Effective January 1, 1970 the plan was amended, providing additional benefits for participants and reducing the waiting period required to participate in the plan. In addition, the interest assumptions were revised. These changes had the effect of increasing pension expense for the year 1970 by approximately $400,000. Costs of benefits accrued under other plans of subsidiaries which are provided and funded currently, are not significant.

Schenley's charges to production costs and operating expenses for pension costs in the year ended December 31, 1969 amounted to $1,500,000, for the four months ended December 31, 1968 amounted to $530,000, and for the year ended August 31, 1968 amounted to $1,800,000. No pension costs were provided during the two fiscal years ended August 31, 1967.

8. Goodwill, Brands, and Trademarks

There were no additions during the years ended December 31, 1970 and December 31, 1969. The reductions amounting to $175,000 in the year ended December 31, 1970 and $167,000 in the year ended December 31, 1969, did not exceed 10% of the balances at the close of either year. A substantial portion of such intangibles represents the excess of the purchase price over equity in net tangible assets of companies acquired, and is not being amortized since in the opinion of Schenley there has been no diminution of value. The balance is being amortized using a pre-determined rate applied to sales of certain products.

9. Contingent Liabilities and Subsequent Events, etc.

Schenley and certain of its subsidiaries are contingently liable under certain contracts, letters of credit, and litigation now pending. Schenley considers that the settlement of these contingencies will not involve amounts that are material in relation to its consolidated financial position. See "History and Business of Schenley—Litigation" elsewhere herein.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On March 29, 1971 Schenley became subject to an anti-trust consent decree pursuant to which, on May 10, 1971, Schenley divested itself of its 100% stock interest in The Buckingham Corporation to Northwest Industries, Inc. The decree prohibits Schenley for a period of ten years, from acquiring, without government or court approval, rights to import and sell or produce and sell any brand of Scotch whisky other than a brand produced by or for John Dewar & Sons, Ltd. and from acquiring without government or court approval any stock, assets or other financial interest in any company (other than Seager Evans & Co., Ltd. or any of its subsidiaries) which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States.

On May 10, 1971 Schenley sold all of the stock of The Buckingham Corporation to Northwest Industries, Inc. for $120,000,000, consisting of $103,000,000 in cash and $17,000,000 in 9½% notes of Northwest maturing March 1, 1979. The purchase price is subject to reduction by reason of Schenley's guarantee of a specified amount of depletions (i.e., case sales by wholesalers to retailers) of Buckingham products during the five years ending December 31, 1975. In connection with the sale, Schenley and Glen Alden Corporation guaranteed $23,000,000 principal amount of Northwest's 9½% notes maturing March 1, 1986 which were simultaneously sold by Northwest to three insurance companies to finance part of the cash portion of the purchase price. This guarantee is also applicable to the $17,000,000 of Northwest notes acquired by Schenley in the event that Schenley sells such notes. The $40,000,000 aggregate principal amount of notes acquired by Schenley or guaranteed by Schenley and Glen Alden are subordinated in right of payment to $80,000,000 of long-term notes of Northwest issued to certain banks in connection with the transaction and are secured by a pledge of all of the stock of Buckingham, which pledge is subject to a prior pledge of such stock to secure the $80,000,000 of Northwest's notes issued to banks. As between Schenley and Glen Alden, Schenley is primarily liable on the guarantee. The sale of Buckingham resulted in a significant gain. Buckingham revenues for 1970 were approximately $60,093,000 and its net income was approximately $8,710,000.

The Board of Directors of Schenley has approved a proposed reorganization with Glen Alden, under the terms of which Schenley will become a wholly-owned subsidiary of Glen Alden (except for the Cumulative Preference Stock which will remain outstanding). In the proposed reorganization $5.00 in cash and $30.00 principal amount of 7½% 14-year Glen Alden sinking fund subordinated debentures will be issued for each share of Common Stock of Schenley and $4.50 in cash and $27.00 principal amount of such debentures will be issued for each share of $1.40 Cumulative Convertible Preferred Stock. The proposed reorganization is subject to the execution of a definitive agreement, approval of lending institutions and Schenley's shareholders, and certain other contingencies. Several derivative stockholders' suits have been instituted against Schenley, Glen Alden and directors of the two companies, alleging, among other things, that the value of the securities and cash to be received by minority stockholders of Schenley pursuant to the reorganization is unfairly low, and seeking preliminary and final injunctions against the reorganization, compensatory and punitive damages and attorneys' fees. See "Proposed Reorganization—Litigation In Respect of the Proposed Reorganization" elsewhere herein.

On February 26, 1971, Schenley sold to Guild Wine Company for a price of $14,000,000, subject to adjustment, certain assets connected with its wine business, the disposition of which will not significantly affect the results of Schenley's operations. The sale resulted in a gain.

10. Amount Due From An Officer

As of December 31, 1970, $69,950 (included in "Other investments" in the accompanying balance sheet) was due from Mr. Bernard Goldberg, President of Schenley. This indebtedness was contracted prior to Mr. Goldberg's election as an officer and director of Schenley to enable him to purchase accommodations for use as a residence and for business purposes.

11. Deferred Taxes

Deferred taxes represent tax effects of items reported for tax purposes in periods different from those for book purposes. Such items include depreciation, amortization, deferred compensation and pension expense.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

**12. Supplementary Profit and Loss Information**

| | Fiscal Year Ended August 31, 1968 | Four Months Ended December 31, 1968 | Year Ended December 31, 1969 | Year Ended December 31, 1970 |
|---|---|---|---|---|
| Maintenance and repairs: | | | | |
| Charged directly to profit and loss | $ 227,264 | $ 65,450 | $ 246,457 | $ 212,709 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 2,681,488 | 996,366 | 2,812,232 | 3,127,552 |
| | $ 2,908,752 | $ 1,061,816 | $ 3,058,689 | $ 3,340,261 |
| Depreciation and amortization of fixed and intangible assets: | | | | |
| Charged directly to profit and loss | $ 644,978 | $ 229,311 | $ 882,223 | $ 965,613 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 3,077,548 | 1,080,356 | 3,311,029 | 2,975,351 |
| | $ 3,722,526 | $ 1,309,667 | $ 4,193,252 | $ 3,940,964 |
| Taxes, other than income taxes: | | | | |
| Charged directly to profit and loss | $ 4,133,782 | $ 1,179,249 | $ 4,230,701 | $ 5,584,070 |
| Charged to other accounts: | | | | |
| Inventory costs, etc. | 253,908,467 | 97,073,743 | 314,209,744 | 327,999,332 |
| Sales, Accounts Receivable, etc. | 16,266,531 | 1,376,691 | 5,919,875 | 6,609,622 |
| | $274,308,780 | $99,629,683 | $324,360,320 | $340,193,024 |
| Detail of taxes included above: | | | | |
| Federal excise and rectification taxes, duties on imported products, and other Federal taxes | $246,489,035 | $89,057,721 | $288,612,178 | $298,890,904 |
| State liquor taxes | 11,877,111 | 6,723,412 | 19,603,962 | 23,235,842 |
| License fees, production and state stamp taxes | 5,670,164 | 1,665,087 | 5,824,507 | 6,301,091 |
| State and local property and franchise taxes | 8,275,499 | 1,631,669 | 7,813,816 | 9,250,546 |
| Payroll taxes | 1,996,971 | 551,794 | 2,505,857 | 2,514,641 |
| | $274,308,780 | $99,629,683 | $324,360,320 | $340,193,024 |
| Rents and royalties: | | | | |
| Charged directly to profit and loss | $ 1,568,973 | $ 929,927 | $ 2,777,451 | $ 2,997,931 |
| Charged to other accounts | 216,540 | 62,947 | 802,593 | 785,837 |
| | $ 1,785,513 | $ 992,874 | $ 3,580,044 | $ 3,783,768 |
| Management and service contract fees: | | | | |
| Charged directly to profit and loss | $ — | $ — | $ 67,582 | $ 154,911 |

(1) The information shown as "charged to other accounts" applies in part to expenses incurred in production and storage of maturing whiskey and other spirits: under the methods of accounting followed by the companies, such expenses become a part of inventory cost and are charged to profit and loss when such products are sold.

(2) Schenley and its subsidiaries are lessees under forty-four lease agreements which expire more than three years after December 31, 1970. Minimum aggregate annual rental under these agreements is approximately $1,912,000.

**EXHIBIT A**

# PLAN AND AGREEMENT OF REORGANIZATION

**PLAN AND AGREEMENT OF REORGANIZATION** dated May 21, 1971, by and between Glen Alden Corporation, a Delaware corporation (hereinafter called "Glen Alden"), Glen Alden Subsidiary, Inc., a Delaware corporation (hereinafter called "Subsidiary"), and Schenley Industries, Inc., a Delaware corporation (hereinafter called "Schenley").

WHEREAS, the Boards of Directors of Glen Alden, Subsidiary and Schenley believe that the reorganization herein provided for (hereinafter called the "Reorganization" or the "Merger") upon the terms and conditions of this Plan and Agreement of Reorganization (hereinafter called this "Agreement") will be in the best interests of said corporations and their respective stockholders,

NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and provisions hereinafter set forth, and for the purpose of defining the terms and conditions of the Reorganization, the parties hereto hereby agree as follows:

## 1. The Reorganization.

1.1. EXECUTION OF AGREEMENT OF MERGER. Glen Alden, Schenley and Subsidiary have executed an Agreement of Merger of even date herewith (the "Agreement of Merger") pursuant to which (a) Subsidiary will be merged into Schenley as the Surviving Corporation, (b) the capitalization of Schenley as the Surviving Corporation will be as set forth in Section 2.1 of the Agreement of Merger, (c) each outstanding share of Common Stock, par value $.93⅓ per share, of Schenley (hereinafter called "Schenley Common Stock"), other than shares held by Glen Alden, all of which will be cancelled and retired, will be converted into $5.00 in cash and $30.00 principal amount of 7½% Sinking Fund Subordinated Debentures due 1985 of Glen Alden (hereinafter called the "Debentures"), to be issued under and pursuant to an Indenture dated as of May 15, 1971 between Glen Alden and Franklin National Bank, as Trustee (hereinafter called the "Indenture") in substantially the form initialed by the parties simultaneously herewith, (d) each outstanding share of $1.40 Cumulative Convertible Preferred Stock, par value $1.00 per share, of Schenley (hereinafter called "Schenley $1.40 Preferred Stock") will be converted into $4.50 in cash and $27.00 principal amount of Debentures, (e) each issued share of Cumulative Preference Stock, par value $.35 per share, of Schenley (hereinafter called "Schenley Preference Stock") will continue as one share of Cumulative Preference Stock, par value $.35 per share, of the Surviving Corporation, and (f) the outstanding shares of Common Stock of Subsidiary will be converted into such number of shares of Common Stock, par value $.93⅓ per share, and $1.40 Cumulative Convertible Preferred Stock, par value $1.00 per share, of the Surviving Corporation as are equal in number, respectively, to the number of shares of Schenley Common Stock and Schenley $1.40 Preferred Stock outstanding on the Effective Date (as hereinafter defined in Section 1.4(b) hereof) immediately prior to the consummation of the Merger.

1.2. STOCKHOLDERS' MEETING. Schenley shall call a meeting of its stockholders to be held in accordance with the General Corporation Law of the State of Delaware at the earliest practicable date and in any event on or before July 15, 1971 (or such later date as may be approved by the Boards of Directors of Glen Alden, Subsidiary and Schenley), upon due notice thereof to its stockholders, to consider and vote upon the adoption of this Agreement and the Agreement of Merger.

1.3. ADDITIONAL STEPS RELATING TO THE AGREEMENT OF MERGER.

(a) On or prior to the Effective Date, Glen Alden, as the sole stockholder of Subsidiary, shall adopt the Agreement of Merger in accordance with the General Corporation Law of the State of Delaware and consent to the cancellation of its shares of Schenley Common Stock in accordance with the provisions of the Agreement of Merger; and

(b) On the Effective Date, Glen Alden shall issue and sell to Schenley, and Schenley shall purchase from Glen Alden, sufficient principal amount of Debentures to permit all of the conversions and exchanges provided for in Article 2 of the Agreement of Merger to be made. The purchase price of the Debentures shall be the fair market value thereof as at the Effective Date. Such purchase price shall be paid on the Effective Date in cash, in such property as Glen Alden and Schenley may

mutually agree upon, or by promissory note of Schenley containing such terms as Glen Alden and Schenley may mutually agree upon. If Schenley shall so purchase the Debentures, then, as between Schenley and Glen Alden, the obligation to the stockholders of Schenley under Sections 2.2 and 2.3 of the Agreement of Merger shall be Schenley's obligation. After the Effective Date and prior to February 29, 1972, Schenley shall return to Glen Alden, against refund to Schenley of the consideration paid therefor, any Debentures not exchanged pursuant to Article 2 of the Agreement of Merger by reason of the election of holders of Schenley Common Stock or $1.40 Preferred Stock to be paid the value of such stock pursuant to Section 262 of the General Corporation Law of the State of Delaware.

(c) In lieu of the issuance and sale of Debentures pursuant to Section 1.3(b) hereof, if Schenley on or prior to the Effective Date shall so elect by notice in writing to Glen Alden, Glen Alden on the Effective Date shall deliver to the Exchange Agent under the Agreement of Merger all of the cash and Debentures required to be delivered to said Exchange Agent under Sections 2.2 and 2.3 of the Agreement of Merger, and, as between Schenley and Glen Alden, the obligation to the stockholders of Schenley under Sections 2.2 and 2.3 of the Agreement of Merger shall be Glen Alden's obligation.

(d) Prior to February 29, 1972, Glen Alden shall deliver for cancellation to Franklin National Bank, as Trustee under the Indenture, any Debentures held by it and not exchanged pursuant to Article 2 of the Agreement of Merger by reason of the election of holders of Schenley Common Stock or $1.40 Preferred Stock to be paid the value of such stock pursuant to Section 262 of the General Corporation Law of the State of Delaware.

1.4. FILING OF AGREEMENTS OF MERGER.

(a) If this Agreement and the Agreement of Merger are adopted by the stockholders of Schenley upon submission thereof as aforesaid, in accordance with the General Corporation Law of the State of Delaware by the affirmative vote of a majority of the total number of votes to which the holders of the outstanding shares of Schenley Common Stock and Schenley $1.40 Preferred Stock are entitled and if the Reorganization is not thereafter terminated or abandoned as permitted by the provisions hereof, the Secretary or an Assistant Secretary of each of Schenley and Subsidiary, under its respective corporate seal, shall, on the Effective Date, certify that such Agreement of Merger has been adopted by the stockholder or stockholders of each such respective corporation, and such Agreement of Merger so adopted and certified shall be executed, acknowledged and submitted for filing and recording in accordance with the General Corporation Law of the State of Delaware.

(b) Glen Alden shall determine the time and date upon which the Agreement of Merger shall be submitted for filing in the State of Delaware, but in no event shall the submission for filing be after July 30, 1971 (or such later date as may be approved by the Chairmen of the Board or the Presidents of Glen Alden, Subsidiary, and Schenley). The date of such filing is herein referred to as the "Effective Date".

**2. Representations and Warranties.**

2.1. REPRESENTATIONS AND WARRANTIES OF SCHENLEY. Schenley represents and warrants to Glen Alden and Subsidiary as follows:

(a) *Organization, Good Standing, Capitalization.* Schenley is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties, to carry on its business as now being conducted, and to enter into this Agreement and the Agreement of Merger and perform its obligations hereunder and thereunder. Schenley has a duly authorized capital stock consisting of 26,745,550 shares, comprising 4,000,000 shares of Schenley Preference Stock, of which 197,108 shares were issued and outstanding as of December 31, 1970, 2,745,550 shares of Schenley $1.40 Preferred Stock, of which 2,535,764 were issued and outstanding as of December 31, 1970, and 20,000,000 shares of Schenley Common Stock, of which 7,991,777 shares were issued and outstanding as of December 31, 1970. All of such issued and outstanding shares have been validly issued and are fully paid and nonassessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or the sale or issuance by, Schenley of any shares of its capital stock of any class other than the conversion rights applicable to the Schenley $1.40 Preferred Stock.

(b) *Information.* None of the information with respect to Schenley, its subsidiaries, affiliates, officers or directors which is included in the proxy soliciting material as mailed to the stockholders of Schenley in connection with the meeting of such stockholders to be held in accordance with Section 1.2 hereof (hereinafter called the "Definitive Proxy Material") is false or misleading in any material respect, fails to state any facts necessary to make the statements therein not false or misleading in any material respect, or omits any material facts required to be stated therein with respect to Schenley, its subsidiaries, affiliates, officers and directors.

(c) *Financial Statements.* The Statement of Consolidated Income of Schenley and consolidated subsidiary companies for the three years ended August 31, 1968 and the Statements of Consolidated Retained Earnings, Capital Surplus and Changes in Working Capital of Schenley and consolidated subsidiary companies for the year then ended, including in each case the related notes thereto, all certified by Arthur Andersen & Co., independent public accountants, and the Statements of Consolidated Income, Retained Earnings and Capital Surplus and Changes in Working Capital for the four month period ended December 31, 1968, and the Consolidated Balance Sheet of Schenley and consolidated subsidiary companies as of December 31, 1969 and 1970 and the related Statements of Consolidated Income, Retained Earnings, Capital Surplus and Changes in Working Capital for the two years ended December 31, 1970, including in each case the related notes thereto, all certified by Haskins & Sells, independent certified public accountants, and all financial statements of Schenley and its subsidiaries in addition to those referred to above included in the Definitive Proxy Material have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year or period and fairly present the financial position as of said dates, and the results of operations for the periods indicated, of Schenley and its subsidiaries.

(d) *Absence of Undisclosed Liabilities.* Except to the extent reflected or reserved against in the financial statements referred to in Section 2.1(c), including the notes thereto, neither Schenley nor any of its subsidiaries, as at December 31, 1970, had any material liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise and whether due or to become due, other than those incurred in the ordinary course of business. Schenley does not know or have reasonable grounds to know of any basis for assertion against Schenley or any of its subsidiaries, as of December 31, 1970, of any material claim or liability of any nature in any amount not fully reflected or reserved against in such financial statements, including the notes thereto, or of any material claim or liability of any nature arising since that date other than those incurred in the ordinary course of business or contemplated hereby or set forth in the Definitive Proxy Material.

(e) *No Material Adverse Change.* Except as stated in the Definitive Proxy Material, since December 31, 1970, there has not been (i) any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries, or (ii) any material loss or damage to any of the properties or assets of Schenley and its subsidiaries, whether or not covered by insurance, which materially and adversely affects or impairs the ability of Schenley and its subsidiaries to conduct their business, or (iii) any labor trouble or any other event or condition of any character which has materially and adversely affected the business of Schenley and its subsidiaries.

(f) *Tax Returns and Payments.* Schenley and its subsidiaries have duly filed all federal, state and local tax returns and reports required to be filed by them, respectively, and have duly paid or established adequate reserves for the payment of all taxes and other governmental charges upon any of them or any of their respective properties, assets, income, franchises, licenses or sales which are due and payable in accordance with such returns or reports or in accordance with any assessments received by them. The Internal Revenue Service has audited and settled or the statute of limitations has run upon all federal income tax returns of Schenley and its subsidiaries for all fiscal years ended on or prior to August 31, 1963. The charges, accruals and reserves shown in the financial statements of Schenley and its subsidiaries in respect of federal taxes for all fiscal periods

to date are, to the knowledge of Schenley, adequate, and Schenley ~~knows of no material~~ unpaid assessment or proposal by the Internal Revenue Service for additional federal taxes for which it does not have adequate reserves or of any basis therefor for any such fiscal period.

(g) *Title to Properties and Assets.* Except as stated in the Definitive Proxy Material, Schenley and its subsidiaries have good and marketable title to all their respective properties and assets, real and personal, including all those reflected as of December 31, 1970 in the financial statements referred to in Section 2.1(c), except those since disposed of in the ordinary course of business or as described in the Definitive Proxy Material, subject to no mortgage, pledge, lien, lease, charge, encumbrance or conditional sale or other title retention agreement except for liens for the payment of federal, state and other taxes, the payment of which is neither delinquent nor subject to penalties or the payment of which is being contested in good faith, and except for imperfections in title, liens or encumbrances, if any, which in the aggregate do not materially affect the financial condition of Schenley and its subsidiaries or materially impair the operations of Schenley and its subsidiaries.

(h) *Trademarks, etc.* Schenley and its subsidiaries own or possess the right to use all the material trademarks, service marks, trade names, brands, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of their respective businesses as now conducted and as proposed to be conducted, without any known material conflict with the rights of others.

(i) *Litigation, etc.* The Definitive Proxy Material adequately describes all litigation, proceedings and investigations pending or, to Schenley's knowledge, threatened as of the date hereof in respect of Schenley or any of its subsidiaries which might result in any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries or which are otherwise required to be described in such proxy material in respect of Schenley and its subsidiaries.

(j) *Authority Relative to this Agreement, etc.* Subject to the consents referred to in Section 2.1 (l), Schenley has taken all necessary corporate action to approve this Agreement and the Agreement of Merger and the performance of its obligations hereunder and thereunder.

(k) *Compliance with Other Instruments, etc.* Subject to the consents referred to in Section 2.1 (l), neither the execution nor delivery of this Agreement or the Agreement of Merger nor the consummation of the transactions contemplated hereby or thereby will conflict with, or result in any violation of, or constitute a default under any term of the Certificate of Incorporation or By-Laws of Schenley or any material agreement, mortgage, indenture, license, permit, lease or other instrument, judgment, decree, order, law or regulation by which Schenley or any of its subsidiaries is bound.

(l) *Governmental and other Consents, etc.* No consent, approval or authorization of or designation, declaration or filing with any governmental authority or other persons or entities on the part of Schenley is required in connection with the execution or delivery of this Agreement or the Agreement of Merger or the consummation of the transactions contemplated hereby or thereby other than (i) filing and recording of the Agreement of Merger with state and local authorities in the State of Delaware in accordance with the General Corporation Law thereof and in other states in which Schenley carries on business, (ii) filings under state securities or "Blue Sky" laws, (iii) filings with the Securities and Exchange Commission or any national securities exchange, (iv) filings under the Federal Alcohol Administration Act and under state alcoholic beverage control laws, (v) notification to the Federal Trade Commission of the Merger, (vi) the consent of the holders of Schenley's outstanding 6.50% Notes due March 1, 1979 and 3% Notes due November 1, 1975 and (vii) the approval of Schenley's stockholders in accordance with the General Corporation Law of the State of Delaware.

2.2. REPRESENTATIONS AND WARRANTIES OF GLEN ALDEN. Glen Alden represents and warrants to Schenley as follows:

(a) *Organization, Good Standing, Capitalization.* Glen Alden is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties, to carry on its business as

now being conducted, and to enter into this Agreement. The authorized capitalization of Glen Alden as of December 31, 1970 is as set forth in the Definitive Proxy Material; all capital stock listed thereon as authorized has been duly authorized, and all capital stock listed thereon as issued and outstanding has been validly issued and is fully paid and nonassessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or the sale or issuance by, Glen Alden of any shares of its capital stock, except as set forth in the Definitive Proxy Material.

(b) *Glen Alden Subsidiary, Inc.* Glen Alden owns all of the issued and outstanding shares of Subsidiary, a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to carry on its business as now being conducted. All of such issued and outstanding shares of Subsidiary have been validly issued and are fully paid and nonassessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or the sale or issuance by, Subsidiary of any shares of its capital stock. Since its organization, Subsidiary has conducted no business activities, except such as are related to this Agreement or the Agreement of Merger and the performance of its obligations hereunder and thereunder.

(c) *Information.* None of the information with respect to Glen Alden, its subsidiaries (other than Schenley and its subsidiaries), affiliates, officers and directors, which has been furnished for inclusion in the Definitive Proxy Material is false or misleading in any material respect, fails to state any facts necessary to make the statements therein not false or misleading in any material respect, or omits any material facts required to be stated therein with respect to Glen Alden, its subsidiaries (other than Schenley and its subsidiaries), affiliates, officers and directors.

(d) *Financial Statements.* The Consolidated Balance Sheet of Glen Alden and subsidiaries as of December 31, 1970 and 1969, and the related Statements of Consolidated Income for the five years ended December 31, 1970 and the Statements of Consolidated Changes in Working Capital and Stockholders' Equity for the three years ended December 31, 1970, including in each case the related notes thereto, all certified by Haskins & Sells, independent certified public accountants, whose opinion is based in part on the reports of other accountants as stated in their opinion dated March 12, 1971, and all financial statements of Glen Alden and its subsidiaries in addition to the above included in the Definitive Proxy Material have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year or period, and fairly present the financial position as of said dates and the results of operations for the periods indicated of Glen Alden and its subsidiaries, except that no representation is made as to the financial statements of Schenley and its subsidiaries included in the foregoing financial statements of Glen Alden and its subsidiaries.

(e) *Absence of Undisclosed Liabilities.* Except to the extent reflected or reserved against in the financial statements referred to in Section 2.2(d), including the notes thereto, neither Glen Alden nor any of its subsidiaries (other than Schenley and its subsidiaries) had any material liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise and whether due or to become due, other than those incurred in the ordinary course of business. Glen Alden does not know or have reasonable grounds to know of any basis for assertion against Glen Alden or any of its subsidiaries (other than Schenley and its subsidiaries) as of December 31, 1970 of any material claim or liability of any nature in any amount not fully reflected or reserved against in such financial statements, including the notes thereto, or of any material claim or liability of any nature arising since that date other than those incurred in the ordinary course of business or contemplated hereby or set forth in the Definitive Proxy Material.

(f) *No Material Adverse Change.* Except as stated in the Definitive Proxy Material, since December 31, 1970, there has not been (i) any material adverse change in the financial condition, business, prospects, properties, or assets of Glen Alden or any of its subsidiaries (other than Schenley and its subsidiaries) or (ii) any material loss or damage to any of the properties or assets of Glen Alden or any of its subsidiaries (other than Schenley and its subsidiaries) (whether or not covered by insurance) which materially and adversely affects or impairs the ability of Glen Alden or

any of its subsidiaries (other than Schenley and its subsidiaries) to conduct their business, or (iii) any labor trouble or any other event or condition of any character which has materially or adversely affected the business of Glen Alden or any of its subsidiaries (other than Schenley and its subsidiaries).

(g) *Tax Returns and Payments.* Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) have duly filed all federal, state and local tax returns and reports required to be filed by them, respectively, and have duly paid or established adequate reserves for the payment of all taxes and other governmental charges upon any of them or any of their respective properties, assets, income, franchises, licenses or sales which are due and payable in accordance with such returns or reports or in accordance with any assessments received by them. The Internal Revenue Service has audited and settled all federal income tax returns of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) for all fiscal years ended on or prior to December 31, 1958. The charges, accruals and reserves shown in the financial statements of Glen Alden and its subsidiaries in respect of federal taxes for all fiscal periods to date are, to the knowledge of Glen Alden, adequate, and Glen Alden does not know of any material unpaid assessment or proposal by the Internal Revenue Service for additional federal taxes for which it does not have adequate reserves or of any basis therefor for any such fiscal period, except that no representation is herein made in respect of any tax liabilities of Schenley and its subsidiaries.

(h) *Title to Properties and Assets.* Except as stated in the Definitive Proxy Material, Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) have good and marketable title to all their respective properties and assets, real and personal, including all those reflected as of December 31, 1970 in the financial statements referred to in Section 2.2(d), except those since disposed of in the ordinary course of business or as described in the Definitive Proxy Material, subject to no mortgage, pledge, lien, lease, charge, encumbrance or conditional sale or other title retention agreement except for liens for the payment of federal, state and other taxes, the payment of which are neither delinquent nor subject to penalties or the payment of which is being contested in good faith, and except for imperfections in title, liens or encumbrances, if any, which in the aggregate do not materially affect the financial condition of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) or materially impair the operations of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries).

(i) *Patents, etc.* Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) own or possess the right to use all the material patents, trademarks, service marks, trade names, brands, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of their respective businesses as now conducted and as proposed to be conducted, without any known material conflict with the rights of others.

(j) *Litigation, etc.* The Definitive Proxy Material adequately describes all litigation, proceedings and investigations pending or, to the knowledge of Glen Alden, threatened as of the date hereof which might result in any material adverse change in the financial condition, business, prospects, properties or assets of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries) or which are otherwise required to be described in such proxy material in respect of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries).

(k) *Authority Relative to this Agreement, etc.* Subject to the consents referred to in Section 2.2(n), Glen Alden has taken all necessary corporate action to approve this Agreement and the Indenture and the performance of its obligations hereunder and thereunder, including the authorization for issuance of the Debentures.

(l) *Validity of the Indenture and Debentures.* Upon due execution thereof, the Indenture will be, and upon issuance, the Debentures will be, legal, valid and binding obligations of Glen Alden, enforceable against it in accordance with their respective terms, subject to laws of general application affecting the rights and remedies of creditors.

(m) *Compliance with Other Instruments, etc.* Subject to the consents referred to in Section 2.2(n), neither the execution nor delivery of this Agreement nor the consummation of the transactions contemplated hereby will conflict with, or result in any violation of, or constitute a default under any term of, the Certificate of Incorporation or By-Laws of Glen Alden or any material agreement, mortgage, indenture, license, permit, lease or other instrument, judgment, decree, order, law or regulation by which Glen Alden or any of its subsidiaries (other than Schenley and its subsidiaries) is bound.

(n) *Governmental and Other Consents, etc.* No consent, approval or authorization of or designation, declaration or filing with any governmental authority or other persons or entities on the part of Glen Alden is required in connection with the execution or delivery of this Agreement or the consummation of the transactions contemplated hereby other than (i) filings under the Federal Alcohol Administration Act and under state alcoholic beverage control laws, (ii) filings with the Securities and Exchange Commission or any national securities exchange, (iii) notification to the Federal Trade Commission of the Merger, and (iv) the consent of the holders of Glen Alden's 7% Senior Notes due February 1, 1984 and the holders of Notes of Glen Alden issued under and pursuant to two Agreements, one dated July 17, 1968 and the other dated November 13, 1968, between Glen Alden and certain banks.

(o) *Ownership of Schenley Common Stock.* Glen Alden owns, subject to no mortgage, pledge, lien, lease, charge, encumbrance or conditional sale or other title retention agreement, 6,887,089 shares of Schenley Common Stock.

2.3. Representations and Warranties of Subsidiary. Subsidiary represents and warrants to Schenley as follows:

(a) *Organization, Good Standing, Capitalization.* Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to carry on its business as now being conducted and to enter into this Agreement and the Agreement of Merger and perform its obligations hereunder and thereunder. Subsidiary has a duly authorized capital stock consisting of 100 shares of Common Stock, without par value, of which 100 shares are issued and outstanding and owned by Glen Alden. All of such issued and outstanding shares have been validly issued and are fully paid and non-assessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or the sale or issuance by, Subsidiary of any shares of its capital stock.

(b) *Information.* None of the information with respect to Subsidiary, its officers and directors, which has been furnished for inclusion in the Definitive Proxy Material is false or misleading in any material respect, fails to state any facts necessary to make the statements therein not false or misleading in any material respect, or omits any material facts required to be stated therein with respect to Subsidiary, its officers and directors.

(c) *Business of Subsidiary.* Since its organization, Subsidiary has not engaged in any business activities or entered into any transactions whatsoever except such as are related to this Agreement and the Agreement of Merger and the performance of Subsidiary's obligations hereunder or thereunder.

(d) *Authority Relative to this Agreement, etc.* Subject to stockholder approval, Subsidiary has taken all necessary corporate action to approve this Agreement and the Agreement of Merger.

(e) *Compliance with Other Instruments, etc.* Subject to stockholder approval, neither the execution nor delivery of this Agreement or the Agreement of Merger nor the consummation of the transactions contemplated will conflict with, or result in any violation of, or constitute a default under any term of, the Certificate of Incorporation or By-Laws of Subsidiary or any material agreement, mortgage, indenture, license, permit, lease or other instrument, judgment, decree, order, law, or regulation by which Subsidiary is bound.

(f) *Governmental and Other Consents, etc.* No consent, approval or authorization of or designation, declaration or filing with any governmental authority or other persons or entities on

the part of Subsidiary is required in connection with the execution or delivery of this Agreement or the Agreement of Merger or the consummation of the transactions contemplated hereby or thereby other than (i) filing and recording of the Agreement of Merger with state and local authorities in the State of Delaware in accordance with the General Corporation Law thereof and (ii) approval of the stockholder of Subsidiary in accordance with the General Corporation Law of the State of Delaware.

3.1. COVENANTS OF SCHENLEY. Schenley agrees that prior to the Effective Date, except with the written consent of Glen Alden and Subsidiary:

(a) Schenley will not enter into any transaction out of the ordinary course of its business which, in the opinion of either Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden and Subsidiary, or Messrs. Simpson Thacher & Bartlett, special counsel to Schenley, is of such materiality as to render materially false or misleading the description of Schenley's business and properties in the Definitive Proxy Material.

(b) Schenley will, and will cause each of its subsidiaries to, maintain all of its and their respective properties in customary repair, order and condition, reasonable wear and use and damage by fire or other casualty excepted, and will maintain, and will cause each of its subsidiaries to maintain, insurance upon all of its and their properties and with respect to the conduct of its and their businesses in such amounts and of such kinds comparable to that in effect on the date of this Agreement.

(c) Schenley will maintain its books, accounts and records, and will cause the books, accounts and records of each of its subsidiaries to be maintained, in the usual manner, on a basis consistent with prior years; Schenley and each of its subsidiaries will duly comply in all material respects with all laws and decrees applicable to each of them and to the conduct of their respective businesses.

(d) Schenley will give to Glen Alden and Subsidiary and to their counsel, accountants, investment advisers and other representatives full access during normal business hours to all of the properties, books, tax returns, contracts, commitments and records of Schenley and its subsidiaries and will furnish to Glen Alden and Subsidiary all such documents (certified if requested) and information with respect to their affairs as Glen Alden and Subsidiary may from time to time reasonably request.

(e) Neither Schenley nor any of its subsidiaries will, or will enter into any contract to, merge or consolidate with, or sell all or substantially all of its assets to, any other corporation or change the character of its business, except that the restrictions of this Section 3.1(e) shall not apply to any transaction which is not of such materiality as to render false or misleading the description of Schenley's business and properties in the Definitive Proxy Material.

(f) No increase will be made in the number of shares of Schenley Common Stock, $1.40 Preferred Stock or Preference Stock issued or outstanding on the date hereof, otherwise than upon the conversion of outstanding shares of Schenley $1.40 Preferred Stock or combination of scrip for fractional shares; no option, warrant, or any other right to purchase or to convert any obligation into shares of Schenley Common Stock, $1.40 Preferred Stock or Preference Stock will be granted or made by Schenley.

(g) No dividend or other distribution or payment will be declared, paid or made by Schenley in respect of shares of Schenley Common Stock, $1.40 Preferred Stock or Preference Stock other than (i) regular quarterly cash dividends of not more than $.35 per share payable to the holders of shares of Schenley Common Stock and $1.40 Preferred Stock and (ii) regular semi-annual cash dividends of $.25 per share payable to the holders of shares of Schenley Preference Stock; no purchase, redemption or other acquisition will be made by Schenley of any of its outstanding shares of capital stock.

(h) Schenley will use its best efforts to obtain the consents referred to in Section 2.1(l)(vi) hereof.

3.2. COVENANTS OF GLEN ALDEN. Glen Alden agrees that prior to the Effective Date, except with the written consent of Schenley (and except that no covenants are made in this Section 3.2 in respect of Schenley or its subsidiaries):

(a) Glen Alden will not enter into any transaction out of the ordinary course of its business which, in the opinion of either Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden and Subsidiary or Messrs. Simpson Thacher & Bartlett, special counsel to Schenley, is of such materiality as to render materially false or misleading the description of Glen Alden's business and properties in the Definitive Proxy Material.

(b) Glen Alden will, and will cause each of its subsidiaries to, maintain all of its and their respective properties in customary repair, order and condition, reasonable wear and use and damage by fire or other casualty excepted, and will maintain, and will cause each of its subsidiaries to maintain, insurance upon all of its and their businesses in such amounts and of such kinds comparable to that in effect on the date of this Agreement.

(c) Glen Alden will maintain its books, accounts and records, and will cause the books, accounts and records of each of its subsidiaries to be maintained, in the usual manner, on a basis consistent with prior years; Glen Alden and each of its subsidiaries will duly comply in all material respects with all laws and decrees applicable to each of them and to the conduct of their respective businesses.

(d) Glen Alden will give to Schenley and to its special counsel, accountants, investment advisers and other representatives full access during normal business hours to all of the properties, books, tax returns, contracts, commitments and records of Glen Alden and its subsidiaries and will furnish Schenley all such documents (certified if requested) and information with respect to their affairs as Schenley may from time to time reasonably request.

(e) Neither Glen Alden nor any of its subsidiaries will, or will enter into any contract to, merge or consolidate with, or sell all or substantially all of its assets to, any other corporation or change the character of its business, except that the restrictions of this Section 3.2(e) shall not apply to any transaction which is not of such materiality as to render false or misleading the description of Glen Alden's business and properties in the Definitive Proxy Material.

(f) Glen Alden will not permit Subsidiary to engage in any business activities or enter into any transaction whatsoever, except such as are related to this Agreement or the Agreement of Merger and the performance by Subsidiary of its obligations hereunder and thereunder.

(g) Glen Alden will use its best efforts to obtain the consents referred to in Section 2.2(n)(iv) hereof and to have the Debentures duly listed, or approved for listing on official notice of issuance, on the New York Stock Exchange.

3.3. COVENANTS OF SUBSIDIARY. Subsidiary agrees that prior to the Effective Date, except with the written consent of Schenley:

(a) Subsidiary will not engage in any business activities or enter into any transaction whatsoever except such as are related to this Agreement or the Agreement of Merger and the performance of its obligations hereunder or thereunder.

(b) Subsidiary will maintain its books, accounts and records in the usual manner and will duly comply in all material respects with all laws and decrees applicable to it.

(c) Subsidiary will give to Schenley and to its special counsel, accountants, investment advisers and other representatives full access during normal business hours to all of the properties, books, tax returns, contracts, commitments and records of Subsidiary and will furnish to Schenley all such documents (certified if requested) and information with respect to its affairs as Schenley may from time to time reasonably request.

(d) No change will be made in the Certificate of Incorporation or By-Laws of Subsidiary or in the number of shares of Subsidiary Common Stock issued or outstanding on the date hereof; no option, warrant, or any other right to purchase or convert into shares of Subsidiary Common Stock will be granted or made by Subsidiary.

**4. Abandonment and Termination.**

4.1. SCHENLEY RIGHT TO ABANDON. Schenley shall have the right to abandon the Reorganization in the event that any of the following shall not be true or shall not have occurred, as the case may be, as of the Effective Date:

(a) *Accuracy of Representations and Warranties.* The representations and warranties of each of Glen Alden and Subsidiary herein contained shall be true on and as of the Effective Date with the same force and effect as though made on and as of the Effective Date, except as affected by transactions contemplated hereby and except that, if any such representations and warranties are made as of a specified date, such representations and warranties shall be true as of such specified date.

(b) *Performance of Agreements.* Glen Alden and Subsidiary each shall have performed all its obligations and agreements and complied with all its covenants contained in this Agreement to be performed and complied with by it prior to the Effective Date.

(c) *Officers' Certificate.* Schenley shall have received a certificate of the Chairman of the Board, the President or any Vice-President of each of Glen Alden and Subsidiary, dated the Effective Date, satisfactory in form and substance to Schenley and its special counsel, certifying as to the fulfillment of the matters mentioned in paragraphs (a) and (b) of this Section 4.1.

(d) *Opinion of Counsel.* Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden and Subsidiary, shall deliver to Schenley an opinion or opinions dated the Effective Date, in form and substance satisfactory to Schenley and Messrs. Simpson Thacher & Bartlett, special counsel to Schenley, to the following effect:

(1) Glen Alden and Subsidiary each is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on the business being conducted by it as described in the Definitive Proxy Material;

(2) Glen Alden and Subsidiary each has corporate power and authority to execute and deliver this Agreement, and Subsidiary has corporate power and authority to execute and deliver the Agreement of Merger, and each has taken all action required by law, its Certificate of Incorporation, By-Laws or otherwise (other than the filing and recording of the Agreement of Merger), to authorize such execution and delivery and to consummate the Reorganization contemplated hereby, and this Agreement as to both Glen Alden and Subsidiary and the Agreement of Merger as to Subsidiary are valid and binding in accordance with their respective terms, except that such counsel need express no opinion as to the fairness of the Reorganization;

(3) The Indenture has been duly executed; and the Indenture is, and the Debentures, when issued, transferred and delivered in accordance with this Agreement and the Agreement of Merger will be, legal, valid and binding obligations of Glen Alden enforceable against it in accordance with their respective terms, subject to laws of general application affecting the rights and remedies of creditors;

(4) No registration under the Securities Act of 1933 is required in connection with the transfer or delivery of the Debentures upon conversion of shares of Schenley Common Stock or $1.40 Preferred Stock pursuant to the Agreement of Merger;

(5) The Indenture has been duly qualified under the Trust Indenture Act of 1939; and

(6) As to such other matters as Schenley or its special counsel may reasonably request.

In rendering the opinions referred to in this Section, Messrs. Fried, Frank, Harris, Shriver & Jacobson may rely as to matters of the Delaware law upon an opinion or opinions, satisfactory in form and substance to Messrs. Simpson Thacher & Bartlett, of Messrs. Morris, Nichols, Arsht & Tunnell, Delaware counsel to Glen Alden and Subsidiary, copies of which opinions shall be delivered to Schenley.

(e) *Consents.* Except to the extent such consents are not required at the Effective Date, Schenley shall have obtained the consents referred to in Section 2.1(l)(vi) hereof and Glen Alden shall have obtained the consents referred to in Section 2.2(n)(iv) hereof.

(f) *Litigation, etc.* Since the date of this Agreement, there shall not have been any change in the status of any existing litigation, proceeding or investigation referred to in Section 2.2(j) (except for changes contemplated by the Definitive Proxy Material) and there shall not have arisen any new pending or threatened litigation, proceeding or investigation, which change in status or new litigation, proceeding, or investigation might result in any material adverse change in the financial condition, business, prospects, properties or assets of Glen Alden and its subsidiaries (other than Schenley and its subsidiaries).

(g) *Listing.* The Debentures issuable upon the Reorganization shall have been duly listed, or approved for listing on official notice of issuance, on the New York Stock Exchange.

(h) *Accountants' Letter.* On the date on which the Definitive Proxy Material is mailed to the stockholders of Schenley in connection with the meeting to be held in accordance with Section 1.2 and on the Effective Date, Schenley shall have received a letter from Haskins & Sells, dated respectively as of said mailing date and as of the Effective Date, stating in effect that a reading of the latest available quarterly interim financial statements of Glen Alden and its subsidiaries, inquiries of officers of Glen Alden responsible for financial and accounting matters, a reading of the minute books of Glen Alden, and other specified procedures and inquiries, if any (which procedures need not constitute an examination in accordance with generally accepted auditing standards), do not cause them to believe that (a) such latest available quarterly interim financial statements of Glen Alden and its subsidiaries are not fair presentations of the financial information they purport to show or have not been prepared on a basis substantially consistent with the financial statements of Glen Alden and its subsidiaries examined by Haskins & Sells and included in the Definitive Proxy Material, or that (b) any material adjustments of such unaudited financial statements are required, or that (c) any adjustments other than normal recurring adjustments have been reflected therein, or that (d) during the period from December 31, 1970 to a specified date not more than five days prior to the date of such letter there was any material adverse change in the consolidated financial position or consolidated results of operations, in each case, from that set forth by the consolidated financial statements of Glen Alden and its subsidiaries as of December 31, 1970 and for the year then ended, except in all instances as set forth in or contemplated by the Definitive Proxy Material.

(i) *Miscellaneous.* On or before the Effective Date, Schenley shall have received such other documents and instruments as its special counsel, Messrs. Simpson Thacher & Bartlett, shall reasonably request.

4.2. Right of Glen Alden and Subsidiary to Abandon. Glen Alden and Subsidiary shall have the right to abandon the Reorganization in the event that any of the following shall not be true or shall not have occurred, as the case may be, as of the Effective Date:

(a) *Accuracy of Representations and Warranties.* The representations and warranties of Schenley herein contained shall be true on and as of the Effective Date with the same force and effect as though made on and as of the Effective Date, except as affected by transactions contemplated hereby and except that, if any such representations and warranties are made as of a specified date, such representations and warranties shall be true as of such specified date.

(b) *Performance of Agreements.* Schenley shall have performed all obligations and agreements and complied with all covenants contained in this Agreement to be performed and complied with by it prior to the Effective Date.

(c) *Officers' Certificate.* Glen Alden and Subsidiary each shall have received a certificate of the Chairman of the Board, the President or any Vice President of Schenley, dated the Effective Date, satisfactory in form and substance to counsel for Glen Alden and Subsidiary, certifying as to the fulfillment of the matters mentioned in paragraphs (a) and (b) of this Section 4.2.

(d) *Opinions of Counsel.* (i) Milton B. Seasonwein, Esq., general resident counsel to Schenley, shall have delivered to Glen Alden and Subsidiary an opinion, dated the Effective Date, satisfactory in form and substance to Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden and Subsidiary, to the effect that Schenley is a corporation duly organized, validly existing and

in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on the business being conducted by it as described in the Definitive Proxy Material.

(ii) Messrs. Simpson Thacher & Bartlett, special counsel to Schenley, shall have delivered to Glen Alden and Subsidiary an opinion or opinions dated the Effective Date, in form and substance satisfactory to Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel to Glen Alden and Subsidiary, to the following effect:

(1) Schenley has corporate power to execute and deliver this Agreement and the Agreement of Merger and has taken all action required by law, its Certificate of Incorporation and By-Laws (other than the filing and recording of the Agreement of Merger), to authorize such execution and delivery and to consummate the Reorganization contemplated hereby, and this Agreement and the Agreement of Merger are valid and binding upon Schenley in accordance with their respective terms, except that such counsel need express no opinion as to the fairness of the Reorganization; and

(2) As to such other matters as Glen Alden and Subsidiary may reasonably request.

(iii) In rendering the opinions referred to in this Section, Milton B. Seasonwein, Esq. and Messrs. Simpson Thacher & Bartlett may rely as to matters of the Delaware law upon an opinion or opinions, satisfactory in form and substance to Messrs. Fried, Frank, Harris, Shriver & Jacobson, of Messrs. Richards, Layton & Finger, Delaware counsel to Schenley, copies of which opinions shall be delivered to Glen Alden and Subsidiary.

(e) *Consents.* Except to the extent such consents are not required at the Effective Date, Glen Alden shall have received the consents referred to in Section 2.2(n)(iv) hereof and Schenley shall have received the consents referred to in Section 2.1(l)(vi) hereof.

(f) *Litigation, etc.* Since the date of this Agreement, there shall not have been any change in the status of any existing litigation, proceeding or investigation referred to in Section 2.1(i) (except for changes contemplated by the Definitive Proxy Material) and there shall not have arisen any new pending or threatened litigation, proceeding or investigation in respect of Schenley or any of its subsidiaries which change in status or new litigation, proceeding, or investigation might result in any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries.

(g) *Accountants' Letter.* On or before the date on which the Definitive Proxy Material is mailed to stockholders of Schenley in connection with the meeting to be held in accordance with Section 1.2 and on or before the Effective Date, Glen Alden and Subsidiary shall have received a letter from Haskins & Sells, dated respectively as of said mailing date and as of the Effective Date, stating in effect that a reading of the latest available quarterly interim financial statements of Schenley and its subsidiaries, inquiries of officers of Schenley responsible for financial and accounting matters, a reading of the minute books of Schenley, and other specified procedures and inquiries, if any (which procedures need not constitute an examination in accordance with generally accepted auditing standards), do not cause them to believe that (a) such latest available quarterly interim financial statements of Schenley and its subsidiaries are not fair presentations of the financial information they purport to show or have not been prepared on a basis substantially consistent with the financial statements of Schenley and its subsidiaries examined by Haskins & Sells and included in the Definitive Proxy Material, or that (b) any material adjustments of such unaudited financial statements are required, or that (c) any adjustments other than normal recurring adjustments have been reflected therein, or that (d) during the period from December 31, 1970 to a specified date not more than five days prior to the date of such letter there was any change in the consolidated capital stock of Schenley (except upon conversion of Schenley $1.40 Preferred Stock or combination of scrip for fractional shares) and long-term debt of Schenley and its subsidiaries or any material adverse change in the

consolidated financial position or consolidated results of operations, in each case, from that set forth by the consolidated financial statements of Schenley and its subsidiaries as of December 31, 1970 and for the year then ended, except in all instances as set forth in or contemplated by the Definitive Proxy Material.

(h) *Tax Ruling or Opinion.* On or before the Effective Date, Glen Alden shall have received either a ruling of the Internal Revenue Service, or an opinion of tax counsel, in form and substance satisfactory to Glen Alden, to the effect in either case that gain, if any, will be recognized by Glen Alden, Schenley and Subsidiary as a result of the merger, only to the extent of the difference between the price paid by Schenley for the Debentures and the fair market value of the Debentures on the Effective Date.

(i) *Miscellaneous.* On or before the Effective Date, Glen Alden shall have received such other documents and instruments as its counsel, Messrs. Fried, Frank, Harris, Shriver & Jacobson, shall reasonably request.

5. **Additional Terms of Abandonment.**

5.1. In addition to the provisions of Article 4 hereof, the merger may be abandoned or terminated before the effectiveness of the Merger:

(a) by mutual agreement of the Boards of Directors of Glen Alden, Subsidiary and Schenley; or

(b) by either Glen Alden or Schenley if the Agreement of Merger shall not have become effective on or prior to July 30, 1971.

5.2. In the event the merger is abandoned or terminated as provided in Section 5.1 or in Article 4 of this Agreement, this Agreement (except Article 6 hereof) and the Agreement of Merger shall forthwith become wholly void and of no effect, and there shall be no liability on the part of either Glen Alden. Subsidiary or Schenley or their respective directors, officers or stockholders.

6. **Expenses.**

Each of the parties hereto shall pay its own expenses in connection herewith and in connection with the Agreement of Merger, including the fees and expenses of its counsel, advisers and accountants.

7. **Miscellaneous.**

7.1. CERTIFICATION OF STOCKHOLDER VOTES, ETC. Prior to the Effective Date, Schenley shall deliver to Glen Alden and Subsidiary a certificate of its Secretary or Assistant Secretary setting forth (a) the number of shares of its capital stock outstanding and entitled to vote on the adoption of the Agreement of Merger, (b) the number of votes pertaining to such shares of capital stock, and (c) the number of votes cast in favor of and against the adoption of such Agreement, and (d) the number of shares of each of Schenley Common Stock and $1.40 Preferred Stock, the holders of which shall have filed with Schenley, pursuant to Section 262 of the General Corporation Law of the State of Delaware, written objection to the Merger before the taking of the vote thereon at the stockholders' meeting held in accordance with Section 1.2 hereof and whose shares were not voted in favor of the Merger.

7.2. TERMINATION OF COVENANTS, REPRESENTATIONS AND WARRANTIES. The respective covenants, representations and warranties of the parties hereto contained in Articles 2 and 3 hereof shall expire and be terminated and extinguished upon the effectiveness of the Merger, and none of the parties hereto shall thereafter be under any liability whatsoever with respect to such covenants, representations and warranties. This Section 7.2. shall have no effect upon any other obligations hereunder of any of the parties hereto whether to be performed before or after the effectiveness of the Merger.

7.3. EXECUTION OF COUNTERPARTS. For the convenience of the parties, this Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

7.4. WAIVERS. Any failure of either of the parties hereto to comply with any of its obligations, agreements or conditions as set forth herein may be expressly waived in writing by the other parties hereto.

IN WITNESS WHEREOF, this Agreement has been executed by Schenley, Glen Alden, and Subsidiary, all on the date first above written.

[Signatures omitted]

**EXHIBIT B**

**AGREEMENT OF MERGER,** dated May 21, 1971, by and between SCHENLEY INDUSTRIES, INC., a Delaware corporation (hereinafter called "Schenley"), and GLEN ALDEN SUBSIDIARY, INC., a Delaware corporation (hereinafter called "Subsidiary"), Schenley and Subsidiary being hereinafter sometimes called the "Constituent Corporations", and GLEN ALDEN CORPORATION, a Delaware corporation (hereinafter called "Glen Alden"), which is joining as a Third Party and is not a Constituent Corporation.

WHEREAS, the authorized capital stock of Schenley consists of 20,000,000 shares of Common Stock, par value $.93⅓ per share (hereinafter called "Schenley Common Stock"), of which 7,991,777 shares were issued and outstanding as of December 31, 1970, and 4,000,000 shares of Cumulative Preference Stock, par value $.35 per share (hereinafter called "Schenley Preference Stock"), of which 197,108 shares were issued and outstanding as of December 31, 1970, and 2,745,550 shares of $1.40 Cumulative Convertible Preferred Stock, par value $1.00 per share (hereinafter called "Schenley $1.40 Preferred Stock") of which 2,535,764 shares were issued and outstanding on December 31, 1970.

WHEREAS, the authorized capital stock of Subsidiary consists of 100 shares of Common Stock, without par value (hereinafter called "Subsidiary Common Stock"), of which 100 shares are issued and outstanding and owned by Glen Alden.

WHEREAS Glen Alden owns 6,887,089 shares of Schenley Common Stock and has consented to the cancellation of such shares pursuant to the terms of this Agreement of Merger.

WHEREAS, pursuant to a certain Plan and Agreement of Reorganization of even date herewith between Glen Alden, Subsidiary and Schenley, Glen Alden has agreed to issue upon the terms and conditions set forth therein, sufficient principal amount of Glen Alden's 7½% Sinking Fund Subordinated Debentures due 1985 (herein called the "Debentures") issued under and pursuant to an Indenture dated as of May 15, 1971 by and between Glen Alden and Franklin National Bank, as Trustee, in order to permit the conversions and exchanges provided for in Article 2 of this Agreement of Merger to be made.

WHEREAS, the respective Boards of Directors of each of the Constituent Corporations deem it advisable and generally to the welfare and advantage of each and of all of the several and respective holders of their shares that the Constituent Corporations merge under and pursuant to Title 8, Chapter 1 of the Delaware Code and the applicable amendments thereof and supplements thereto, known as and hereinafter called the "General Corporation Law of the State of Delaware" and have approved this Agreement of Merger.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, provisions and covenants herein contained, the parties hereto hereby agree in accordance with the General Corporation Law of the State of Delaware that Schenley and Subsidiary shall be, and they hereby are, at the Effective Date (as defined in Section 3 hereof) of this Agreement of Merger, merged into a single corporation existing under the laws of the State of Delaware, to wit, Schenley, one of the Constituent Corporations, which shall be the surviving corporation (such corporation in its capacity as such surviving corporation being herein sometimes called the "Surviving Corporation"), and the parties hereto adopt and agree to the following agreements, terms and conditions relating to said merger and the mode of carrying the same into effect.

**1. Name of Surviving Corporation, Certificate of Incorporation, By-Laws, Directors and Officers.**

1.1. NAME OF SURVIVING CORPORATION. The name of the corporation which shall survive the merger is, and after the Effective Date shall continue to be, "SCHENLEY INDUSTRIES, INC.".

1.2. CERTIFICATE OF INCORPORATION. The Certificate of Incorporation of Schenley, as in effect on the date hereof, shall be amended by this Agreement of Merger as set forth in Schedule I hereto, and said Certificate of Incorporation as so amended shall from and after the Effective Date be and continue to be the Certificate of Incorporation of the Surviving Corporation until further amended as provided by law.

1.3. BY-LAWS. The By-Laws of Schenley, as in effect on the Effective Date, shall from and after the Effective Date be and continue to be the By-Laws of the Surviving Corporation until amended as therein provided.

1.4. DIRECTORS. The directors of Schenley on the Effective Date shall be the directors of the Surviving Corporation and shall hold office from the Effective Date until their successors are elected in accordance with law and the By-Laws of the Surviving Corporation and shall have duly qualified.

1.5. OFFICERS. The officers of Schenley on the Effective Date shall be the officers of the Surviving Corporation and shall hold their respective offices in Schenley from the Effective Date and until their successors are elected or appointed in accordance with the By-Laws of the Surviving Corporation and shall have duly qualified.

1.6. VACANCIES. If, on or after the Effective Date, a vacancy shall exist in the Board of Directors or in any of the offices of the Surviving Corporation by reason of death or inability to act, or for any other reason, such vacancy may be filled in the manner provided in the By-Laws of the Surviving Corporation.

**2. Status and Conversion of Securities.**

2.1. AUTHORIZED CAPITALIZATION OF SURVIVING CORPORATION. The total number of shares of all classes of stock which the Surviving Corporation shall be authorized to issue is Thirteen Million, Thirty-three Thousand, Three Hundred Fifty-eight (13,033,358) shares, of which One Hundred Ninety-seven Thousand, Five Hundred Ninety-four (197,594) shares shall be shares of Cumulative Preference Stock of the par value of thirty-five cents ($.35) per share, Two Million, Five Hundred Thirty-five Thousand, Seven Hundred Sixty-four (2,535,764) shares shall be shares of $1.40 Cumulative Convertible Preferred Stock of the par value of One Dollar ($1.00) per share, and Ten Million, Three Hundred Thousand (10,300,000) shares shall be shares of Common Stock of the par value of Ninety-three and one-third cents ($.93⅓) per share.

2.2. SCHENLEY CAPITAL STOCK. (a) Each share of Schenley Common Stock outstanding and not held by Glen Alden or by Schenley as treasury stock, on the Effective Date, shall be converted into $5.00 in cash and $30.00 principal amount of Debentures. All shares of Schenley Common Stock held on the Effective Date by Glen Alden or held by Schenley as treasury stock, and the certificates representing the same, shall on the Effective Date *ipso facto* be cancelled and retired.

(b) Each share of Schenley $1.40 Preferred Stock outstanding, and not held by Schenley as treasury stock, on the Effective Date, shall be converted into $4.50 in cash and $27.00 principal amount of Debentures. All shares of Schenley $1.40 Preferred Stock held on the Effective Date by Schenley as treasury stock, and the certificates representing the same, shall on the Effective Date *ipso facto* be cancelled and retired.

(c) The shares of Schenley Preference Stock outstanding or held by Schenley as treasury stock on the Effective Date shall continue as shares of Cumulative Preference Stock of the Surviving Corporation.

(d) All scrip for fractions of shares of Schenley Common Stock outstanding and in effect on the Effective Date shall, from and after the Effective Date and until the expiration of the period, if not then expired, during which such scrip is combinable by its terms into Schenley Common Stock, be combinable into $5.00 in cash and $30.00 principal amount of Debentures in respect of each share of Schenley Common Stock (as existing on the date hereof) into which such scrip would otherwise be combinable, and for the further period during which the holders of such scrip shall be entitled to receive a cash payment only (but without interest) as provided by the terms of such scrip, each such holder shall be entitled to receive his pro rata share of the cash deposited by Schenley with Manufacturers Hanover Trust Company, as agent, pursuant to the terms of such scrip.

2.3. SURRENDER AND EXCHANGE OF SCHENLEY STOCK CERTIFICATES. After the Effective Date, each holder of an outstanding certificate or certificates theretofore representing shares of Schenley Common Stock or Schenley $1.40 Preferred Stock, except those to be cancelled and retired in accordance with Section 2.2, shall surrender such certificate or certificates to Franklin National Bank or such other bank or trust company as the Surviving Corporation shall designate (hereinafter called the "Exchange Agent"), and shall receive in exchange therefor the cash and principal amount of Debentures to which such holder shall be entitled by reason of his holdings of Schenley Common Stock and Schenley $1.40 Preferred Stock. Until so surrendered and exchanged, each certificate theretofore representing shares of

Schenley Common Stock or Schenley $1.40 Preferred Stock shall be deemed to represent the right to receive the cash and principal amount of Debentures into which the shares theretofore represented thereby shall have been converted; provided, however, that until so surrendered and exchanged, the Surviving Corporation shall not be required to pay over or transfer to any holder of such certificates the cash and principal amount of Debentures to which he is entitled or any interest payments received on such principal amount of Debentures, and provided further that upon the surrender and exchange of such certificates there shall be paid over or transferred to the record holder thereof, and in exchange therefor, the cash, without interest thereon, and principal amount of Debentures to which such shareholder is entitled, together with any interest payments received on such principal amount of Debentures, without interest thereon, since the Effective Date. On the Effective Date, the Surviving Corporation or Glen Alden shall deposit in escrow, for the account of the Exchange Agent, (such deposit to be made with the Exchange Agent or such other bank or banks, having combined capital, surplus and undivided profits of at least $10,000,000, as the Surviving Corporation shall select) sufficient cash and Debentures to permit the conversions and exchanges provided for in Section 2.2 and this Section 2.3 to be made; provided, however, that any cash and Debentures remaining in escrow and not delivered upon exchanges in accordance with this Section at the expiration of ninety (90) days from the Effective Date shall be returned immediately by the Exchange Agent to the Surviving Corporation or Glen Alden, as the case may be, and provided further that if at any time prior to the expiration of such ninety (90) day period any holder on the Effective Date of Schenley Common Stock or Schenley $1.40 Preferred Stock shall have demanded in writing from the Surviving Corporation payment of the value of his Schenley stock in accordance with Section 262 of the General Corporation Law of the State of Delaware, the cash and Debentures deposited in escrow hereunder in respect of such stock shall be returned immediately by the Exchange Agent to the Surviving Corporation or Glen Alden, as the case may be, upon receipt of notice from the Surviving Corporation of such demand.

2.4. COMMON STOCK OF SUBSIDIARY. The shares of Common Stock of Subsidiary outstanding on the Effective Date shall be converted into such numbers of shares of Common Stock, par value $.93⅓ per share, and $1.40 Cumulative Convertible Preferred Stock, par value $1.00 per share, of the Surviving Corporation as are equal in number, respectively, to the numbers of shares of Schenley Common Stock and Schenley $1.40 Preferred Stock outstanding on the Effective Date immediately prior to the consummation of the merger.

2.5. SURRENDER AND EXCHANGE OF SUBSIDARY STOCK CERTIFICATES. Glen Alden, as the holder of a certificate or certificates representing all issued and outstanding shares of Common Stock of Subsidiary, shall be entitled to surrender such certificates to the Surviving Corporation and to receive in exchange therefor certificates for the number of shares of Common Stock and $1.40 Cumulative Convertible Preferred Stock of the Surviving Corporation into which the shares theretofore represented thereby shall have been converted. Until so surrendered, such certificate or certificates for shares of Common Stock of Subsidiary shall be deemed for all purposes to represent the ownership of such shares of Common Stock and $1.40 Cumulative Convertible Preferred Stock of the Surviving Corporation.

3. **Effective Date.**

This Agreement shall become effective at the time and on the date when this Agreement duly adopted, certified, executed and acknowledged has been filed in accordance with Section 103(c) of the General Corporation Law of the State of Delaware. The time and date of such effectiveness is referred to herein as the "Effective Date".

4. **Certain Effects of the Merger.**

When the merger shall have become effective, the separate existence of Subsidiary shall cease and the Constitutent Corporations shall be merged into Schenley which as the Surviving Corporation shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature, and be subject to all the restrictions, disabilities and duties of each of the Constituent Corporations; and all and singular, the rights, privileges, powers and franchises of each of the Constituent Corporations, and all property, real, personal and mixed, and all debts due to either of the Constituent Corporations on whatever accounts, as well for stock subscriptions as all other things in action or belonging to either

of such corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise, under the laws of Delaware or any other state, in any of the Constituent Corporations, shall not revert or be in any way impaired; but all rights of creditors and all liens upon any property of any of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities and duties of the Constituent Corporations shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. At any time, or from time to time, after the Effective Date, the last acting officers of Subsidiary, or the corresponding officers of the Surviving Corporation, may, in the name of Subsidiary, execute and deliver all such proper deeds, assignments, and other instruments and take or cause to be taken all such further or other action as the Surviving Corporation may deem necessary or desirable in order to vest, perfect, or confirm in the Surviving Corporation title to and possession of all of Subsidiary's property, rights, privileges, powers, franchises, immunities, and interests and otherwise to carry out the purposes of this Agreement.

**5. Termination, Amendments, Supplements, Etc.**

5.1. TERMINATION. Prior to the filing hereof in accordance with the General Corporation Law of the State of Delaware, this Agreement shall be terminable and terminate in accordance with the provisions of the Plan and Agreement of Reorganization dated of even date herewith by and between Glen Alden, Subsidiary and Schenley.

5.2. AMENDMENTS, SUPPLEMENTS, ETC. At any time whether before or after submission to, or adoption by, the respective stockholders of the Constituent Corporations, this Agreement may be amended in matters of form, or supplemented by additional agreements, articles or certificates, as may be determined in the judgment of the Boards of Directors of the Constituent Corporations to be necessary, desirable, or expedient to clarify the intention of the parties hereto or to effect or facilitate the filing, recording or official approval of this Agreement of Merger and the consummation hereof and the merger provided for herein, in accordance with the purpose and intent of this Agreement of Merger.

IN WITNESS WHEREOF, this Agreement has been executed by each of the Constituent Corporations, and by Glen Alden, by its Chairman of the Board or its President or a Vice President and attested by its Secretary or Assistant Secretary under its corporate seal, as of the date first above written.

[Signatures omitted]

**SCHEDULE I**

The Certificate of Incorporation of Schenley Industries, Inc., shall be, and hereby is, amended to change the initial paragraph of Article Fourth to read in its entirety as follows:

The total number of shares of all classes of stock which the Corporation shall be authorized to issue is Thirteen Million, Thirty-three Thousand, Three Hundred Fifty-eight (13,033,358) shares, of which One Hundred Ninety-seven Thousand, Five Hundred Ninety-four (197,594) shares shall be shares of Cumulative Preference Stock of the par value of thirty-five cents ($.35) per share, Two Million, Five Hundred Thirty-five Thousand, Seven Hundred Sixty-four (2,535,764) shares shall be shares of $1.40 Cumulative Convertible Preferred Stock of the par value of One Dollar ($1.00) per share, and Ten Million, Three Hundred Thousand (10,300,000) shares shall be shares of Common Stock of the par value of Ninety-three and one-third cents ($.93⅓) per share.

I, , Secretary of SCHENLEY INDUSTRIES, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of SCHENLEY INDUSTRIES, INC. in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the and attested by the Secretary of SCHENLEY INDUSTRIES, INC. under its corporate seal in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was submitted to the stockholders of SCHENLEY INDUSTRIES, INC., at a meeting thereof duly called for the purpose of acting on said Agreement of Merger and at said meeting more than a majority of the votes to which the outstanding shares of the capital stock of SCHENLEY INDUSTRIES, INC. were entitled were voted for the adoption of the foregoing Agreement of Merger.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of SCHENLEY INDUSTRIES, INC. and affixed the seal of said corporation this day of , 1971.

.....
Secretary

[Corporate Seal]

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I, , Secretary of GLEN ALDEN SUBSIDIARY, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of GLEN ALDEN SUBSIDIARY, INC. in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the President and attested by the Secretary of GLEN ALDEN SUBSIDIARY, INC. under its corporate seal, in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was adopted by the sole stockholder of GLEN ALDEN SUBSIDIARY, INC. by unanimous written consent in accordance with Section 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of GLEN ALDEN SUBSIDIARY, INC. and affixed the seal of said corporation this day of , 1971.

.....
Secretary

[Corporate Seal]

The foregoing Agreement of Merger having been duly adopted by the stockholders of SCHENLEY INDUSTRIES, INC., a Delaware corporation, and by the stockholders of GLEN ALDEN SUBSIDIARY, INC., a Delaware corporation, and the fact of the adoption thereof as aforesaid having been duly certified thereon by the Secretary of SCHENLEY INDUSTRIES, INC., and by the Secretary of GLEN ALDEN SUBSIDIARY, INC., respectively, all in accordance with law, said Agreement of Merger is hereby executed by the Chairman of the Board or the President or a Vice President and attested by the Secretary or an Assistant Secretary of each of said corporations thereunto duly authorized, under its respective corporate seal, this day of , 1971.

SCHENLEY INDUSTRIES, INC.

By .....

[Corporate Seal]

Attest:

.....

Secretary

GLEN ALDEN SUBSIDIARY, INC.

By .....

[Corporate Seal]

Attest:

.....

Secretary

STATE OF DELAWARE
COUNTY OF NEW CASTLE } ss.:

BE IT REMEMBERED that on this day of , 1971, personally came before me, a Notary Public in and for the county and state aforesaid, ,
of SCHENLEY INDUSTRIES, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger to be his act and deed and the act, deed and agreement of said SCHENLEY INDUSTRIES, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of SCHENLEY INDUSTRIES, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....
Notary Public

STATE OF DELAWARE
COUNTY OF NEW CASTLE } ss.:

BE IT REMEMBERED that on this day of , 1971, personally came before me, a Notary Public in and for the county and state aforesaid, ,
of GLEN ALDEN SUBSIDIARY, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger to be his act and deed and the act, deed and agreement of said GLEN ALDEN SUBSIDIARY, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of GLEN ALDEN SUBSIDIARY, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....
Notary Public

**EXHIBIT C**

# § 262 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

**§ 262. Payment for stock or membership of person objecting to merger or consolidation**

(a) When used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a non-stock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a non-stock corporation.

(b) The corporation surviving or resulting from any merger or consolidation shall within 10 days after the effective date of the merger or consolidation, notify each stockholder of any corporation of this State so merging or consolidating who objected thereto in writing and whose shares either were not entitled to vote or were not voted in favor of the merger or consolidation, and who filed such written objection with the corporation before the taking of the vote on the merger or consolidation, that the merger or consolidation has become effective. Such notice shall likewise be given to each stockholder whose corporation approved the merger or consolidation pursuant to section 228 of this title without a meeting of its stockholders and who either did not, or had no right to, consent in writing to such merger or consolidation. If any such stockholder shall within 20 days after the date of mailing of the notice demand in writing, from the corporation surviving or resulting from the merger or consolidation, payment of the value of his stock, the surviving or resulting corporation shall, within 30 days after the expiration of the period of 20 days, pay to him the value of his stock on the effective date of the merger or consolidation, exclusive of any element of value arising from the expectation or accomplishment of the merger or consolidation.

(c) If during a period of 30 days following the period of 20 days provided for in subsection (b) of this section, the corporation and any such stockholder fail to agree upon the value of such stock, any such stockholder, or the corporation surviving or resulting from the merger or consolidation, may, by petition filed in the Court of Chancery within four months after the expiration of the period of 30 days, demand a determination of the value of the stock of all such stockholders by an appraiser to be appointed by the Court.

(d) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the corporation, which shall within ten days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the corporation. If the petition shall be filed by the corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the corporation and to the stockholders shown upon the list at the addresses therein stated, and notice shall also be given by publishing a notice at least once at least one week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware. The Court may direct such additional publication of notice as it deems advisable. The forms of the notices by mail and by publication shall be approved by the Court.

(e) After the hearing on such petition the Court shall determine the stockholders who have complied with the provisions of this section and become entitled to the valuation of and payment for their shares, and shall appoint an appraiser to determine such value. Such appraiser may examine any of the books and records of the corporation or corporations the stock of which he is charged with the duty of valuing, and he shall make a determination of the value of the shares upon such investigation as to him seems proper. The appraiser shall also afford a reasonable opportunity to the parties interested to submit to him pertinent evidence on the value of the shares. The appraiser, also, shall have such powers and authority as may be conferred upon masters by the rules of the Court of Chancery or by the order of his appointment.

(f) The appraiser shall determine the value of the stock of the stockholders adjudged by the Court of Chancery to be entitled to payment therefor and shall file his report respecting such value in the office of the Register in Chancery and notice of the filing of such report shall be given by the Register in Chancery to the parties in interest. Such report shall be subject to exceptions to be heard before the Court both upon the law and facts. The Court shall by its decree determine the value of the stock of the stockholders entitled to payment therefor and shall direct the payment of such value, together with interest, if any, as hereinafter provided, to the stockholders entitled thereto by the surviving or resulting corporation upon the transfer to it of the certificates representing such stock, which decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any other state.

(g) At the time of appointing the appraiser or at any time thereafter the Court may require the stockholders who demanded payment for their shares to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with such direction the Court may dismiss the proceedings as to such stockholder.

(h) The cost of any such appraisal, including a reasonable fee to and the reasonable expenses of the appraiser, but exclusive of fees of counsel or of experts retained by any party, may on application of any party in interest be determined by the Court and taxed upon the parties to such appraisal or any of them as appears to be equitable, except that the cost of giving the notice by publication and by registered mail hereinabove provided for shall be paid by the corporation. The Court may, on application of any party in interest, determine the amount of interest, if any, to be paid upon the value of the stock of the stockholders entitled thereto.

(i) Any stockholder who has demanded payment of his stock as herein provided shall not thereafter be entitled to vote such stock for any purpose or be entitled to the payment of dividends or other distribution on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation) unless the appointment of an appraiser shall not be applied for within the time herein provided, or the proceeding be dismissed as to such stockholder, or unless such stockholder shall with the written approval of the corporation deliver to the corporation a written withdrawal of his objections to and an acceptance of the merger or consolidation, in any of which cases the right of such stockholder to payment for his stock shall cease.

(j) The shares of the surviving or resulting corporation into which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

(k) This section shall not apply to the shares of any class or series of a class of stock, which, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders at which the agreement of merger or consolidation is to be acted on, were either (1) registered on a national securities exchange, or (2) held of record by not less than 2,000 stockholders, unless the certificate of incorporation of the corporation issuing such stock shall otherwise provide; nor shall this section apply to any of the shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation, as provided in subsection (f) of section 251 of this title. This subsection shall not be applicable to the holders of a class or series of a class of stock of a constituent corporation if under the terms of a merger or consolidation pursuant to section 251 or 252 of this title such holders are required to accept for such stock anything except (a) stock or stock and cash in lieu of fractional shares of the corporation surviving, or resulting from such merger or consolidation, or (b) stock or stock and cash in lieu of fractional shares of any other corporation, which at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders at which the agreement of merger or consolidation is to be acted on, were either (1) registered on a national securities exchange or (2) held of record by not less than 2,000 stockholders, or (c) a combination of stock or stock and cash in lieu of fractional shares as set forth in (a) and (b) of this subsection.

# SCHENLEY INDUSTRIES, INC.

## *Notice of Special Meeting of Stockholders*

To the Holders of the Common Stock
and Cumulative Preference Stock of
SCHENLEY INDUSTRIES, INC.:

A Special Meeting of the Stockholders of SCHENLEY INDUSTRIES, INC., will be held at the office of the Corporation, at No. 100 West Tenth Street, in the City of Wilmington, State of Delaware, at 12:00 noon on December 15, 1969, for the following purposes:

1. To consider and act upon the adoption of the Plan and Agreement of Reorganization, a copy of which is set forth as Exhibit A to the Proxy Statement accompanying this Notice, and the $1.40 Preferred Stock Agreement of Merger, a copy of which is set forth as Exhibit B to such Proxy Statement, providing for, among other things, the merger of BHM Industries, Inc., a Delaware corporation, with and into this Corporation and the conversion of BHM Common Stock into $1.40 Cumulative Convertible Preferred Stock of this Corporation on the terms and conditions set forth in said Agreement of Merger;

2. To consider and act upon (a) the adoption of the Plan and Agreement of Reorganization, a copy of which is set forth as Exhibit A to the Proxy Statement accompanying this Notice, and the Common Stock Agreement of Merger, a copy of which is set forth as Exhibit C to such Proxy Statement, providing for, among other things, the merger of BHM Industries, Inc., a Delaware corporation, with and into this Corporation and the conversion of BHM Common Stock into Common Stock of this Corporation on the terms and conditions set forth in said Agreement of Merger, and (b) a proposal to authorize the issuance of 2,470,995 shares of said Common Stock of this Corporation pursuant to said Agreement of Merger;

3. To consider and act upon (a) a proposal to eliminate the preemptive rights accruing to holders of the Corporation's Common Stock and (b) a proposal to eliminate paragraph (j) of Article FOURTH of the Certificate of Incorporation of the Corporation, all as set forth in Schedules I to said Exhibits B and C to such Proxy Statement; and

4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on November 5, 1969 are entitled to vote at such Special Meeting.

By Order of the Board of Directors

MILTON B. SEASONWEIN,
*Secretary*

Dated: November 17, 1969

**Whether or not you plan to attend the meeting, please complete, date and sign the enclosed proxy card and mail it promptly in the accompanying envelope in order to assure representation of your shares. No postage need be affixed if mailed in the United States.**

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*Proxy Statement*

# SPECIAL MEETINGS OF STOCKHOLDERS

## OF

# SCHENLEY INDUSTRIES, INC.

## AND

# BHM INDUSTRIES, INC.

Special Meetings of the Stockholders of SCHENLEY INDUSTRIES, INC. ("Schenley" or the "Surviving Corporation") and BHM INDUSTRIES, INC. ("BHM") will be held on December 15, 1969, at the time and place and for the purposes set forth in the appropriate notice of meeting and in this Proxy Statement. The accompanying form of Proxy is solicited on behalf of the managements of Schenley and BHM, respectively, in connection with such meetings or any adjournments thereof.

A proxy in the accompanying form which is properly executed, duly returned to management, and not revoked will be voted in accordance with the instructions contained therein. If no instructions are given with respect to any particular matter to be acted upon, proxies will be voted in favor of such matter. Each such proxy granted may be revoked at any time prior to its exercise.

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Although this Proxy Statement relates to proposals to adopt both the $1.40 Preferred Stock Agreement of Merger (Exhibit B hereto) and the Common Stock Agreement of Merger (Exhibit C hereto), only one of these Agreements of Merger will become effective.

Glen Alden Corporation ("Glen Alden") currently owns more than 80% of the voting power of Schenley's outstanding capital stock, and accordingly Schenley is currently included in Glen Alden's consolidated federal income tax returns. If the merger is consummated on the basis of the Common Stock Agreement of Merger, Glen Alden's percentage ownership of Schenley will decrease below 80%, and Schenley will immediately be excluded from Glen Alden's affiliated tax group. If the merger is consummated on the basis of the $1.40 Preferred Stock Agreement of Merger, it is believed that Schenley will continue in such affiliated group. A ruling to that effect has been requested from the Internal Revenue Service. For further details, see below, "Proposed Merger—Effect on Consolidated Federal Income Tax Returns".

The Agreement and Plan of Reorganization dated October 10, 1969, as amended, between Schenley and BHM (the "Plan of Reorganization", attached as Exhibit A hereto) provides that on the filing date Schenley shall select the Agreement of Merger which will become effective. If a favorable ruling is received prior to the filing date, Schenley is committed to select the $1.40 Preferred Stock Agreement of Merger. On the other hand, if an adverse ruling is received prior to the filing date, it is Schenley's present intention to select the Common Stock Agreement of Merger. Schenley has no present fixed intention as to which Agreement of Merger it will select if no ruling, favorable or adverse, is received prior to the filing date.

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The only outstanding securities of Schenley entitled to vote pursuant to the Delaware Corporation Law at the Schenley meeting are its shares of Common Stock, par value $.93⅓ per share ("Schenley Common Stock"), each share of which entitles the holder thereof to one vote. Although Schenley's legal counsel has expressed the opinion that holders of Schenley's Cumulative Preference Stock, par value $.35 per share ("Schenley Preference Stock"), are not legally entitled to vote at the Schenley meeting, management of Schenley has decided to permit holders of such stock to vote at the meeting together with the holders of Common Stock, without distinction as to class, each preference share entitling the holder thereof to one vote. Accordingly, holders of Schenley Common Stock and holders of Schenley Preference Stock of record at the close of business on November 5, 1969 will be entitled to vote at the Schenley meeting or any adjournments thereof. As of November 5, 1969, there were 7,778,677 shares of Schenley Common Stock and 201,977 shares of Schenley Preference Stock outstanding and entitled to

vote at the meeting. At such date, Glen Alden was the beneficial owner of 6,887,089 shares of Schenley Common Stock, constituting approximately 88% of the outstanding shares of Schenley Common Stock and 86% of the aggregate number of outstanding shares of Schenley Common Stock and Preference Stock.

The only outstanding securities of BHM entitled to vote at the BHM meeting are its shares of Common Stock, par value $.50 per share ("BHM Common Stock"), each share of which entitles the holder thereof to one vote. Only BHM stockholders of record at the close of business on November 5, 1969 are entitled to vote at the BHM meeting or any adjournments thereof. Said stockholders of record are entitled to vote whether or not certificates for such shares of BHM Common Stock have been received by them in exchange for certificates for shares of Class A Common Stock of The Buckingham Corporation ("Buckingham") following the reorganization on May 15, 1969 referred to below. As of November 5, 1969 there were 5,796,900 shares of BHM Common Stock outstanding and entitled to vote. At such date, Schenley was the beneficial owner of 3,054,450 shares of BHM Common Stock, constituting approximately 52.7% of the voting securities of BHM.

BHM was organized on March 20, 1969 in connection with a reorganization consummated on May 15, 1969 pursuant to which Buckingham became a wholly-owned subsidiary of BHM. As used herein "BHM" includes Buckingham prior to May 15, 1969.

As of November 5, 1969, Rapid-American Corporation ("Rapid") owned approximately 64% of the outstanding Common Stock of Glen Alden, substantially all of which was acquired pursuant to an exchange offer which expired on March 14, 1969.

Glen Alden acquired 1,417,689 shares of the Schenley Common Stock owned by it from Lewis S. Rosenstiel, then Chairman of the Board of Schenley, and six other related sellers on March 20, 1968 for an aggregate purchase price of $75,610,080. Glen Alden purchased an additional 110,000 shares of Schenley Common Stock on the New York Stock Exchange on April 26, 1968, at an aggregate cost of $5,851,208. The balance of shares of Schenley Common Stock owned by Glen Alden, including 916,950 shares tendered by Rapid, McCrory Corporation ("McCrory") (a majority-owned subsidiary of Rapid) and Sol Kittay (a director and Chairman of the Executive Committee of Glen Alden) and his son, Jeffrey Kittay, were acquired by Glen Alden pursuant to an exchange offer made in August 1968 by Glen Alden to all holders of Schenley Common Stock.

Information herein contained with respect to Schenley, BHM, and Glen Alden has been supplied by the respective corporations.

**Other Matters:**

The management of each corporation knows of no matters other than those listed in the respective Notices of Special Meetings which are likely to come before such meetings. However, if any other matter, not now known, properly comes before such meetings, the persons named in the enclosed form of proxy will vote said proxy in accordance with their best judgment on such matters.

## PURPOSES OF MEETINGS

**Schenley:**

The purpose of the meeting of Schenley stockholders is to consider and act upon the adoption of the Plan of Reorganization, the $1.40 Preferred Stock Agreement of Merger, the Common Stock Agreement of Merger, and the authorization for issuance of 2,470,995 shares of Schenley Common Stock pursuant to the Common Stock Agreement of Merger. A separate stockholder vote will be taken on the proposals, included in the aforesaid Agreements of Merger, to amend the Certificate of Incorporation of Schenley (i) to incorporate a provision eliminating the preemptive rights accruing to holders of Schenley Common Stock and (ii) to eliminate paragraph (j) of Article FOURTH as described below under "Proposed Merger—Amendments to Certificate of Incorporation of Schenley." Each of these actions requires the affirmative vote of the holders of a majority of the aggregate number of outstanding

shares of Schenley Common Stock and Schenley Preference Stock. As noted above, Glen Alden holds 6,887,089 shares of Schenley Common Stock, representing approximately 88% of the outstanding shares of Schenley Common Stock and 86% of the aggregate number of outstanding shares of Schenley Common Stock and Preference Stock. Glen Alden has advised that it intends to vote said shares in favor of adopting the Plan of Reorganization and the respective Agreements of Merger, authorizing the issuance of 2,470,995 shares of Schenley Common Stock pursuant to the Common Stock Agreement of Merger, and approving the proposed amendments to the Certificate of Incorporation of Schenley referred to above.

**BHM:**

The purpose of the meeting of BHM stockholders is to consider and act upon the adoption of the Plan of Reorganization, the $1.40 Preferred Stock Agreement of Merger, and the Common Stock Agreement of Merger referred to above. Adoption of the Plan of Reorganization and of each Agreement of Merger by the stockholders of BHM will require the affirmative vote of the holders of a majority of the outstanding shares of BHM Common Stock. As noted above, Schenley holds 3,054,450 shares of BHM Common Stock, constituting approximately 52.7% of the outstanding voting securities of BHM. Schenley intends to vote said shares in favor of adopting the Plan of Reorganization and the respective Agreements of Merger.

## PROPOSED MERGER

**Terms of the Merger:**

**If the merger is consummated on the basis of the $1.40 Preferred Stock Agreement of Merger:**

(a) BHM will be merged into Schenley, and Schenley, as the Surviving Corporation, will succeed to all assets, liabilities and obligations of BHM;

(b) each outstanding share of BHM Common Stock, except the 3,054,450 shares of BHM Common Stock owned by Schenley which will be cancelled, will be converted into one share of new $1.40 Cumulative Convertible Preferred Stock of Schenley ("$1.40 Preferred Stock");

(c) the outstanding shares of Schenley Common Stock and of Schenley Preference Stock will remain outstanding and unchanged, and all outstanding options under the Schenley Employees' Share Purchase Plan heretofore granted by Schenley will continue in effect without change, except that, by reason of the anti-dilution provisions applicable to the Schenley Preference Stock, the conversion rate thereof will be subject to adjustment in the event that any shares of $1.40 Preferred Stock are converted into Schenley Common Stock prior to the termination of the convertibility privilege of the Schenley Preference Stock at the close of business on December 31, 1969; and

(d) the Certificate of Incorporation of Schenley will be amended as described under "Amendments to Certificate of Incorporation of Schenley" below.

Each share of the aforesaid $1.40 Preferred Stock will be entitled to cumulative dividends at the annual rate of $1.40 per share and to one-tenth ($1/10$th) of one vote per share on all matters unless otherwise provided by law or the Certificate of Incorporation of Schenley and will be convertible into nine-tenths ($9/10$ths) of a share of Schenley Common Stock at any time on or after the Effective Date of the merger, at the option of the holder thereof. Further information concerning the terms and conditions of the respective classes of Schenley capital stock, including the $1.40 Preferred Stock, is set forth below under "Description of Capital Stock of the Surviving Corporation".

**If the merger is consummated on the basis of the Common Stock Agreement of Merger:**

(a) BHM will be merged into Schenley, and Schenley, as the Surviving Corporation, will succeed to all assets, liabilities and obligations of BHM;

(b) each outstanding share of BHM Common Stock, except the 3,054,450 shares of BHM Common Stock owned by Schenley which will be cancelled, will be converted into nine-tenths ($9/10$ths) of a share of Schenley Common Stock;

(c) the outstanding shares of Schenley Common Stock and of Schenley Preference Stock will remain outstanding and unchanged, and all outstanding options under the Schenley Employees' Share Purchase Plan heretofore granted by Schenley will continue in effect without change, except that, by reason of the anti-dilution provisions applicable to the Schenley Preference Stock, the conversion rate thereof will, if the merger is consummated on or before December 31, 1969, be adjusted from .1875 of a share of Schenley Common Stock to .21 of a share of Schenley Common Stock for each share of Schenley Preference Stock; and

(d) the Certificate of Incorporation of Schenley will be amended as described under "Amendments to Certificate of Incorporation of Schenley" below, except that the provisions of the proposed amendment to the Certificate of Incorporation of Schenley relating to the Schenley $1.40 Preferred Stock will not become effective.

In connection with the proposed merger, on August 28, 1969 the Board of Directors of Schenley increased the quarterly dividend on Schenley Common Stock to $.35 per share (an increase of 2½¢ per share) and expressed its intention to declare future quarterly dividends on Schenley Common Stock at the new $.35 per share rate, subject to Schenley's future earnings and financial position and to other factors affecting dividend policy.

**Purpose and Background of the Proposed Merger:**

The desirability of the proposed merger of BHM into Schenley has been the subject of careful consideration by the Boards of Directors of both corporations, and the merger is unanimously recommended by both Boards. The proposed merger will eliminate the presently outstanding minority interest in BHM and thereby simplify the corporate structure of Schenley. The proposed merger will permit BHM stockholders to convert their interest in BHM into an equity participation in an alcoholic beverage producer and distributor with a full line of products.

In arriving at the exchange rates set forth in the Agreements of Merger, the Boards of Directors of Schenley and BHM considered the financial position, recent operating results and current dividend policies of both companies (including Schenley's recent increase in dividend), the possible sale value of BHM's investment in Buckingham, the market value of the two companies' shares, and their past and prospective earnings and sales. In connection with the terms of the Agreements of Merger, the Board of Directors of Schenley was advised by Loeb, Rhoades & Co., investment bankers, and the Board of Directors of BHM was advised by White, Weld & Co. Said investment banking firms will be paid fees, estimated to aggregate approximately $150,000, for their services in connection with the transaction. On November 3, 1969, Loeb, Rhoades & Co. held 6,790 shares of Schenley Common Stock, 1,027 shares of Schenley Preference Stock, and 35,305 shares of BHM Common Stock, all of which were held for the account of its customers. On November 5, 1969, White, Weld & Co. held 259 shares of Schenley Common Stock, 103 shares of Schenley Preference Stock and 1,505 shares of BHM Common Stock, all of which were held for the account of its customers.

It should be noted that Schenley is the majority stockholder of BHM and caused the election of all of the present directors of BHM on May 15, 1969.

The terms of the merger as contained in the Agreements of Merger were arrived at in negotiations between representatives of the two companies following an initial merger proposal by Schenley on June 26, 1969. In that proposal Schenley's Board of Directors had offered to exchange seven-eighths of a share of Schenley Common Stock for each share of BHM Common Stock, and no provision was made for an increase in the rate of dividends to be paid on the Schenley Common Stock. Thereafter, on July 31, 1969 Schenley and BHM entered into an agreement of merger on substantially the same terms as are now contained in the Common Stock Agreement of Merger. Subsequently, the terms of the merger were further amended to be as set forth above and the Agreement of Merger dated July 31, 1969 was terminated.

When the merger is consummated, the *Cutty Sark* distribution business of BHM's wholly-owned subsidiary, Buckingham, will continue to be operated by Buckingham, and Buckingham will continue, as

at present, as an independent, separate corporation with its own independent board of directors, management and field sales and distribution staff. Pursuant to an exchange of letters in the Fall of 1969 between Buckingham, Schenley and Berry Bros. & Rudd Limited ("Berry Bros."), suppliers of *Cutty Sark* Scotch Whisky to Buckingham, Schenley has responded affirmitively to the request of Berry Bros. that, in so far as the future election of members of the Board of Directors of Buckingham is concerned, Schenley will seek to elect persons who are independent of Schenley, and in line with this principle, the Agreements of Merger, which originally included a proposal to elect John J. Yorwerth, the present Chairman of the Boards of BHM and Buckingham, as a director and Vice Chairman of the Board of Schenley, were amended in November 1969 to eliminate such proposal. Mr. Yorwerth will continue as the Chairman of the Board and chief executive officer of Buckingham after the merger. Berry Bros. has suggested that the Board of Buckingham offer Mr. Yorwerth an employment contract.

Messrs. Herbert Smith & Co., English solicitors to BHM, have advised that, in their opinion, the merger will not constitute a breach of the restrictions on dealing in other products or of any of the other provisions contained in the agreements between Buckingham and Berry Bros. under which Buckingham distributes *Cutty Sark* Scotch Whisky in the United States; and Schenley will notwithstanding the merger be free to conduct other business activities so long as those activities do not result in a failure by Buckingham to perform and observe fully its obligations under the agreements. In the course of the correspondence referred to above, Berry Bros. has advised Schenley that disclosure by Buckingham to Schenley of certain types of confidential information might, in the opinion of their counsel, constitute a breach of Buckingham's agreement with Berry Bros. (For a description of these agreements see "History and Business of BHM—Agreements with British Companies".)

After the merger is consummated, it is possible that Schenley may sell all of the oustanding stock of Buckingham and that in such transaction the consideration received in respect of 47.34% of Buckingham may be greater than the value of the Schenley $1.40 Preferred Stock or Schenley Common Stock being issued in the proposed merger for the outstanding 47.34% minority interest in BHM. Schenley has no present intention of disposing of Buckingham in the immediate future. However, future developments in the pending civil antitrust suit of the United States Department of Justice against Schenley or in the two pending private antitrust suits in which Schenley is a defendant (see below, "History and Business of Schenley—Litigation") may require Schenley to dispose of Buckingham. Moreover, if at any time Schenley receives an attractive offer for Buckingham, Schenley may accept the offer.

Within the past year, Schenley and BHM have received preliminary inquiries in regard to the sale of all or a majority of the stock of Buckingham. No firm offers were received, and no negotiations were commenced or are now pending. Neither Schenley nor BHM has received, or has made, any appraisals of Buckingham in connection with any such inquiries. However, in May 1968 Schenley's present parent, Glen Alden, employed the investment banking firm of Bear, Stearns & Co. in connection with certain litigation (Mollie H. Sanders vs. Meshulam Riklis, et al, Sup. Ct. N. Y., County of New York, Index No. 07206 - 1968), and said investment banking firm then expressed the opinion as part of its evaluation of the stock of Schenley that the outstanding shares of stock of Buckingham at that time "might well be valued", on an earnings multiple basis, at substantially in excess of their then market price of approximately $21 per share. The evaluation, which was stated to be made on the basis of publicly available information, was utilized by Glen Alden in support of its position in the litigation that its announced offer for shares of Schenley Common Stock was not at an excessive price. No opinion is expressed as to whether this evaluation of the stock of Buckingham would be valid under present circumstances.

If after the consummation of the proposed merger Schenley were to sell the outstanding stock of Buckingham, which it would then own, such sale would be taxable to Schenley at capital gains rates to the extent that the proceeds of sale exceeded Schenley's basis in the stock of Buckingham (which after the proposed merger will be the same as BHM's basis in said stock). Under proposed legislation presently pending in Congress, the maximum tax on long-term capital gains realized by a corporation would be raised from the present 25% rate (excluding surtax) to a 30% rate. Although it is not possible at the present time to determine the exact amount of BHM's basis in the stock of Buckingham, the management of BHM estimates that its total basis is between approximately $80,000,000, and $90,000,000. This basis consists of approximately $32,970,000 derived from Schenley's former 52.66% stock interest

in Buckingham with the balance being derived from the former public stockholders of Buckingham in the May 15, 1969 reorganization. There can be no assurance that any sale of Buckingham by Schenley will occur, or if it does, when it will take place or what consideration Schenley will receive therefrom.

**Effect on Consolidated Federal Income Tax Returns:**

Should the merger be consummated on the basis of the $1.40 Preferred Stock Agreement of Merger and thereafter the combined voting power of all classes of stock of Schenley held by Glen Alden falls or threatens to fall below 80% by reason of the conversion of Schenley $1.40 Preferred Stock into Schenley Common Stock or otherwise, it is the present intention of the managements of Glen Alden and Schenley to take steps to increase Glen Alden's percentage ownership of Schenley so as to permit the continued inclusion or re-inclusion of Schenley in Glen Alden's consolidated federal income tax returns.

Should the merger be consummated on the basis of the Common Stock Agreement of Merger, the voting power of the Schenley Common Stock held by Glen Alden will be reduced to 67%. Either Glen Alden or Schenley or both may (although there is no assurance that either will) take steps to increase Glen Alden's percentage ownership of Schenley so as to permit the re-inclusion of Schenley in Glen Alden's consolidated federal income tax returns. See also "History and Business of Schenley— Possible Future Developments" for discussion of a possible future combination of Schenley and Glen Alden.

The current agreement between Glen Alden and Schenley relating to Glen Alden's consolidated federal income tax returns provides that Schenley's federal income tax liability for any period in which it has taxable income will be the same as such liability would have been if Schenley were not included in Glen Alden's consolidated return. However, if Schenley has a net loss for the tax period covered by Glen Alden's consolidated return, Glen Alden is obligated to pay to Schenley an amount equal to the reduction in Glen Alden's consolidated tax liability resulting from such loss. Although it is not possible to predict the results of future operations of either Schenley or Glen Alden, Glen Alden anticipates that in the year 1970 Glen Alden's net U. S. taxable income (excluding Schenley) will be substantially lower than Schenley's net taxable income and may be a net loss. Accordingly, any immediate federal income tax benefit to be derived from the continued inclusion of Schenley in Glen Alden's consolidated federal income tax returns will accrue to Glen Alden. The agreement between Schenley and Glen Alden relating to Glen Alden's consolidated federal income tax returns has been amended to provide that, if the proposed $1.40 Preferred Stock Agreement of Merger becomes effective, Glen Alden will pay Schenley, so long as Schenley remains a member of the Glen Alden consolidated income tax group and any shares of $1.40 Preferred Stock are outstanding, a sum at an annual rate of $500,000, which is an amount somewhat greater than the excess of the annual Schenley dividend (based upon current dividend rates) which would be payable on the Schenley stock received by the BHM public stockholders if the $1.40 Preferred Stock Agreement of Merger, rather than the Common Stock Agreement of Merger, becomes effective.

**Amendments to Certificate of Incorporation of Schenley:**

The $1.40 Preferred Stock Agreement of Merger provides that upon its filing the Certificate of Incorporation of Schenley will be amended (i) to authorize 2,745,550 shares of the new Schenley $1.40 Preferred Stock, (ii) to incorporate a provision eliminating the preemptive rights accruing to holders of Schenley Common Stock, (iii) to eliminate paragraph (j) of Article FOURTH which requires the affirmative vote of the holders of a majority of the outstanding shares of Schenley stock having voting power before Schenley may issue, sell, transfer, or otherwise dispose of any authorized but unissued shares of capital stock or any shares of capital stock held in the treasury except upon a stock dividend or other distribution on any class of stock of Schenley, upon any conversion of convertible stock into Schenley Common Stock, or upon any exercise of stock options granted under any employees' share purchase or stock option plan approved by stockholders, and (iv) to authorize certain technical amendments to Article NINTH necessitated by reason of the issuance of the Schenley $1.40 Preferred Stock. The Common Stock Agreement of Merger provides that upon its filing the Certificate of Incorporation of Schenley will be amended only as set forth in clauses (ii) and (iii) of the preceding sentence. Copies of the provisions of the proposed amendments are set forth as Schedule I to the respective Agreements of Merger to which reference is made for a more complete statement of the terms and provisions thereof.

The authorization of the new Schenley $1.40 Preferred Stock will enable Schenley as the Surviving Corporation to issue shares of $1.40 Preferred Stock in conversion of BHM Common Stock pursuant to the $1.40 Preferred Stock Agreement of Merger.

The management of Schenley believes that the elimination of preemptive rights and the elimination of the requirement of a stockholders' vote prior to the issuance of shares of capital stock or the sale of shares of capital stock held in the treasury is in the best interests of Schenley and of the stockholders of the Surviving Corporation. Preemptive rights and the right to vote upon the issuance or sale of additional shares of capital stock are appropriate for a corporation whose shares are closely held by a few shareholders who wish to preserve their relative share ownership. The management of Schenley does not believe that such rights are appropriate for a corporation the size of Schenley whose shares are publicly held and traded on a national securities exchange. Management believes that Schenley should be able to offer shares for sale without first offering them to stockholders or receiving stockholder approval to do so. Elimination of these rights will afford Schenley greater flexibility in future financing arrangements.

**Federal Income Tax Consequences:**

Messrs. Strasser, Spiegelberg, Fried & Frank, counsel for Schenley, and Messrs. Hanigsberg, Delson & Broser, Schenley's tax advisers, have advised that, in their opinion, the proposed merger of BHM into Schenley constitutes a reorganization within the meaning of the current reorganization provisions of the Internal Revenue Code, and, accordingly, under such provisions no gain or loss will be recognized to Schenley or to the stockholders of Schenley as a result of the merger. Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel for BHM, have advised that, in their opinion, the proposed merger of BHM into Schenley constitutes a reorganization within the meaning of the current reorganization provisions of the Internal Revenue Code, and, accordingly, under such provisions no gain or loss will be recognized to BHM as a result of the merger or to the stockholders of BHM whose BHM Common Stock is converted into Schenley stock pursuant to the merger. Such special counsel have also advised that, in their opinion, the cost basis to the stockholders of BHM of the shares of Schenley stock received by them upon the merger will be the same as the basis for their shares of BHM Common Stock plus the cost of any fractional interests purchased, and their holding period for such shares of Schenley stock, other than for any fractional interests purchased, will include their holding period for their shares of BHM Common Stock. Such counsel for Schenley, Schenley's tax advisers, and special counsel for BHM have further advised that if the BHM Common Stock is converted into Schenley $1.40 Preferred Stock, such stock will not constitute Section 306 Stock within the meaning of that section of the Internal Revenue Code of 1954, as amended, except that no opinion has been given as to the status of such stock under Section 306 in the hands of holders who also hold Schenley stock on the effective date of the merger. If stock is deemed to be Section 306 stock, then its sale, redemption or other disposition may under certain circumstances give rise to ordinary taxable income. Accordingly, stockholders who hold both BHM and Schenley stock should consult their tax advisers with respect to the tax consequences of any disposition of the Schenley $1.40 Preferred Stock.

**Right of Termination:**

The proposed merger may be terminated, prior to its becoming effective (whether before or after adoption of the Agreements of Merger by the stockholders of Schenley and BHM), by mutual agreement of the Boards of Directors of Schenley and BHM. Reference is hereby made to the Plan of Reorganization for certain other grounds for termination.

**Expenses of Merger:**

The Surviving Corporation will bear the expenses of the merger. If the merger does not become effective, Schenley and BHM will each pay its own expenses in connection with the transaction including the fees and expenses of its counsel, advisers and accountants, except that all printing expenses will be borne equally by the two corporations.

**Effective Date and Certificate Exchange:**

If adopted by the necessary stockholder votes as set forth under "Purposes of Meetings", the merger will become effective at the time of the requisite filing in the State of Delaware (the "Effective Date").

As promptly as practicable thereafter, the stockholders of Schenley and BHM will be notified of the Effective Date of the merger, and BHM stockholders will be advised as to the procedure for surrender of their BHM Common Stock certificates in exchange for certificates of Schenley $1.40 Preferred Stock or Common Stock, as the case may be. All BHM stockholders will be deemed to be stockholders of Schenley on the Effective Date, but will be required to exchange their BHM Common Stock certificates for certificates of Schenley $1.40 Preferred Stock or Common Stock, as the case may be, in order to receive dividends on such Schenley stock.

BHM stockholders who have not yet exchanged their certificates representing Class A Common Stock of Buckingham ("Buckingham Certificates") for shares of BHM Common Stock pursuant to the Agreement of Merger between BHM's wholly-owned subsidiary, BHM Subsidiary, Inc., and Buckingham (which became effective on May 15, 1969) will be required to complete the exchange of their Buckingham Certificates for certificates representing BHM Common Stock and the exchange of such BHM Common Stock certificates for certificates of Schenley $1.40 Preferred Stock or Common Stock as a condition of receiving Schenley dividends. Upon exchange of BHM Common Stock certificates for Schenley $1.40 Preferred Stock or Common Stock certificates, exchanging stockholders will receive, without interest, the amount of dividends theretofore paid to stockholders of record at or after the Effective Date on the shares of Schenley $1.40 Preferred Stock or Common Stock to be received.

If the merger is consummated on the basis of the Common Stock Agreement of Merger, promptly after the Effective Date BHM stockholders will be advised as to the procedure for the purchase or sale of fractional interests in Schenley Common Stock (see "Fractional Interests") which may arise in connection therewith.

**Fractional Interests:**

No fractional shares of Schenley Common Stock will be issued under the Common Stock Agreement of Merger. In lieu thereof, arrangements will be made whereby each holder entitled to a fractional interest will be given an opportunity for the 60-day period following the Effective Date of the merger to instruct the Exchange Agent, acting as the agent for the holders of such fractional interests, to purchase such fractional interests as may be required to make up one whole share or to sell the fractional interests to which such holder is entitled. Promptly after the 60-day period, the full shares representing all fractional interests with respect to which no instructions have been received will be sold. The proceeds thereof will be held for the persons entitled thereto for six years, after which time all unclaimed funds will be paid over to the Surviving Corporation, and any interest of others therein will terminate. Purchases and sales of fractional interests will be effected on the basis of the market price per share of Schenley Common Stock on the New York Stock Exchange, and no service charges, brokerage commissions or transfer taxes will be payable by stockholders in connection with such purchases or sales, all of which will be defrayed by the Surviving Corporation.

Fractional interests in shares of Schenley $1.40 Preferred Stock will not arise.

**Waivers and Amendments:**

Schenley and BHM may waive in writing any conditions precedent to their respective obligations to file the Agreements of Merger. In addition, the Plan of Reorganization and the Agreements of Merger may be amended or modified by a written instrument signed by the proper officers of the respective parties. The parties may exercise their right to waive conditions and to amend the Plan of Reorganization and the Agreements of Merger as to matters deemed by their Boards of Directors not to be of a substantial nature, such as reasonable extensions of time for the consummation of the transaction, the relaxation of requirements with respect to legal opinions, documentation and similar matters. If any change or amendment which is so deemed to be of a substantial nature should be necessary, the parties intend

to give such notice to or obtain such consent of their respective stockholders as time and circumstances may permit.

**No Right of Appraisal:**

Since the outstanding shares of BHM Common Stock and the outstanding shares of Schenley Common Stock and Schenley Preference Stock are listed on the New York Stock Exchange, the merger, whether consummated on the basis of the $1.40 Preferred Stock Agreement of Merger or the Common Stock Agreement of Merger, does not entitle the holders of such shares to any right of appraisal under Delaware law.

**Accounting Treatment:**

The proposed merger will be accounted for as a "pooling of interests" transaction. Haskins & Sells, independent certified public accountants for Schenley, has reviewed the foregoing accounting treatment and has approved it as being in accordance with generally accepted accounting principles.

**Listing:**

It is a condition of the proposed merger that the shares of Schenley Common Stock issuable upon the proposed merger or upon conversion of the $1.40 Preferred Stock, as the case may be, will be listed, or approved for listing, on the New York Stock Exchange on or prior to the Effective Date. Application will also be made for listing of Schenley $1.40 Preferred Stock on the New York Stock Exchange and for the quotation of Schenley Common Stock and Schenley $1.40 Preferred Stock on The Stock Exchange, London, England.

**Solicitation of Proxies:**

Solicitation of proxies will be made by mail, telephone and otherwise. Schenley and BHM may each utilize the services of some of their officers and regular employees (who will receive no compensation therefor in addition to their regular salaries) to solicit proxies personally. Each company intends to request banks and brokers who hold shares of its stock in their names or in their custody or in the names of others, to forward copies of the proxy material to those persons for whom they hold such shares and to request instruction for voting the proxies. Each company will reimburse such banks and brokers for their regular out-of-pocket expenses incurred in connection therewith. BHM has retained The Kissel-Blake Organization, Inc. to aid in the solicitation of proxies, at an estimated aggregate cost of approximately $3,500.

**Transfer Agents, Registrars and Exchange Agent:**

Manufacturers Hanover Trust Company, New York, N. Y., and The Corporation Trust Company, Jersey City, N. J., are the Transfer Agents and Marine Midland Grace Trust Company of New York, New York, N. Y., and The First Jersey National Bank, Jersey City, N. J. are the Registrars of the Schenley Common Stock. The Transfer Agent and Registrar of the Schenley $1.40 Preferred Stock will be Franklin National Bank, New York, N. Y. and The Chase Manhattan Bank, N. A., New York, N. Y., respectively.

Manufacturers Hanover Trust Company will act as the Exchange Agent for the exchange of certificates for BHM Common Stock for certificates representing Schenley $1.40 Preferred Stock or Common Stock, as the case may be, in connection with the proposed merger.

**Compliance with Alcoholic Beverage Laws:**

The merger may require Buckingham to file new or amended applications in connection with certain federal, state and other licenses now held by Buckingham with respect to its operations in the distribution of alcoholic beverages and may also require Schenley to make certain filings in connection therewith. Neither Schenley, Buckingham nor BHM is aware of any fact which would prevent approval of such applications.

**Certain Legal Proceedings:**

As noted below under "History and Business of Schenley—Litigation", Schenley is a party to a civil antitrust suit brought by the United States Department of Justice which seeks divestiture by Schenley of its interest in Buckingham. In addition, Schenley is subject to the reporting requirements of the Federal Trade Commission with respect to mergers between corporations of a certain size. Notification of the proposed merger has been given to the United States Department of Justice and to the Federal Trade Commission. To date, no objection to the consummation of the proposed merger has been received either from the Justice Department or the F.T.C.

A motion for an injunction which might have the effect of enjoining the proposed merger is involved in the actions instituted by Max Eisenberg described under "History and Business of BHM—Litigation".

## CAPITALIZATION

The consolidated capitalizations of Schenley and of BHM as of June 30, 1969 and as adjusted to reflect the proposed merger are as follows:

| Title of Class | Amount Authorized | Amount Outstanding | Amount to be Outstanding Assumed Issuance of: $1.40 Cumulative Convertible Preferred Stock | Amount to be Outstanding Assumed Issuance of: Common Stock |
|---|---|---|---|---|
| Schenley: | | | | |
| Notes Payable to Banks—Short Term | — | $84,500,000 | $84,500,000 | $84,500,000 |
| Commercial Paper | — | 50,000,000 | 50,000,000 | 50,000,000 |
| Loans from Insurance Companies: | | | | |
| Due March 1, 1979 at 6.50% | — | 71,500,000 | 71,500,000 | 71,500,000 |
| Due November 1, 1975 at 3% (prepayments of $1,250,000 in 1969, and thereafter at $2,000,000 annually) | — | 13,750,000 | 13,750,000 | 13,750,000 |
| Cumulative Convertible Preference Stock—Par Value $.35(1) | 4,000,000 Shs. | 202,025 Shs.(2) | 202,025 Shs.(2) | 202,025 Shs.(2) |
| $1.40 Cumulative Convertible Preferred Stock—Par Value $1.00(3) | 2,745,550 Shs. | — | 2,745,550 Shs. | — |
| Common Stock—Par Value $.93⅓ | 20,000,000 Shs. | 7,804,943 Shs.(4) | 7,804,943 Shs.(4) | 10,275,938 Shs.(4) |
| BHM: | | | | |
| Common Stock—Par Value $.50 | 9,000,000 Shs. | 5,800,000 Shs.(5) | — | — |

(1) The Cumulative Preference Stock may be redeemed in whole or in part upon resolution of the Board of Directors at a redemption price of $10 per share plus cumulative dividends. Such stock is entitled to cumulative preference dividends at the rate of $.50 per share per annum. Each share of such stock is presently convertible into 3/16ths of a share of Schenley Common Stock until December 31, 1969. If the proposed merger is consummated on or prior to December 31, 1969 such conversion rate may be subject to anti-dilution adjustment. See "Proposed Merger—Terms of the Merger" above.

(2) Excludes 486 shares of Schenley Preference Stock held in Treasury.

(3) The $1.40 Cumulative Convertible Preferred Stock will be redeemable in whole or in part at any time on or after March 1, 1971 or 14 months after issue date, whichever is later, upon resolution of the Board of Directors at a redemption price of $24 per share plus cumulative dividends. Such stock will be entitled to cumulative preferred dividends at the rate of $1.40 per share per annum. Each share will be convertible into 9/10ths of a share of Schenley Common Stock.

(4) Excludes 1,612,276 shares of Schenley Common Stock held in Treasury.

(5) Includes 3,054,450 shares of BHM Common Stock owned by Schenley and 3,100 shares at June 30, 1969 in respect of which rights of appraisal had been claimed in connection with the reorganization plan pursuant to which Buckingham became a wholly-owned subsidiary of BHM.

(6) Reference is made to Note 11 of the Notes to the Financial Statements of Schenley for information with respect to lease commitments as of June 30, 1969.

## COMPARATIVE DATA

The following compares per share redemption amount, book values, earnings and dividends for Schenley and BHM (Buckingham until May 15, 1969) on a historical basis (based on their financial statements included elsewhere herein) and book values and earnings for the Surviving Corporation on a pro forma basis giving effect to the proposed merger upon issuance of either Schenley $1.40 Preferred Stock or in the alternative Schenley Common Stock (based on the pro forma financial statements included elsewhere herein). The information is also given for 9/10 share of Common Stock of the Surviving Corporation, which is the amount equivalent in interest to one share of BHM Common Stock, upon assumed conversion of $1.40 Cumulative Convertible Preferred Stock or upon assumed issuance of Schenley Common Stock in the proposed merger.

**Redemption Amount and Book Values:**

| | As of June 30, 1969 |
|---|---|
| Historical: | |
| Book Value Per Share of Schenley Common Stock | $39.06 |
| Book Value Per Share of BHM Common Stock | $ 7.31 |

| | Assumed Issuance of | |
|---|---|---|
| | $1.40 Cumulative Convertible Preferred Stock | Common Stock |
| Surviving Corporation—Pro Forma: | | |
| Redemption Amount Per Share of $1.40 Cumulative Convertible Preferred Stock | $24.00 | — |
| Book Value Per Share of Common Stock | $33.17 | $31.61 |
| Book Value Per 9/10 Share of Common Stock | — | $28.45 |

| Earnings: | Year Ended August 31, 1965 | 1966 | 1967 | 1968 | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 |
|---|---|---|---|---|---|---|
| Schenley—Historical: | | | | | | |
| Per Share of Common Stock: | | | | | | |
| Income before extraordinary items | $2.09 | $2.65 | $2.72 | $2.14 | $.44 | $.96 |
| Extraordinary items | .75 | — | .21 | — | — | — |
| Net income | $2.84 | $2.65 | $2.93 | $2.14 | $.44 | $.96 |
| Surviving Corporation—Pro Forma: | | | | | | |
| Assumed issuance of $1.40 Cumulative Convertible Preferred Stock: | | | | | | |
| Primary Earnings Per Share of Common Stock: | | | | | | |
| Income before extraordinary items | $1.94 | $2.54 | $2.67 | $2.19 | $.46 | $.98 |
| Extraordinary items | .75 | — | .21 | — | — | — |
| Net income | $2.69 | $2.54 | $2.88 | $2.19 | $.46 | $.98 |
| Diluted Earnings Per Share of Common Stock†: | | | | | | |
| Income before extraordinary items | $1.85 | $2.30 | $2.40 | $2.04 | * | $.93 |
| Extraordinary items | .58 | — | .16 | — | — | — |
| Net income | $2.43 | $2.30 | $2.56 | $2.04 | * | $.93 |
| Assumed issuance of Common Stock: | | | | | | |
| Earnings Per Share of Common Stock: | | | | | | |
| Income before extraordinary items | $1.85 | $2.30 | $2.40 | $2.04 | $.47 | $.93 |
| Extraordinary items | .58 | — | .16 | — | — | — |
| Net income | $2.43 | $2.30 | $2.56 | $2.04 | $.47 | $.93 |
| Earnings Per 9/10 Share of Common Stock: | | | | | | |
| Income before extraordinary items | $1.67 | $2.07 | $2.16 | $1.84 | $.42 | $.84 |
| Extraordinary items | .52 | — | .14 | — | — | — |
| Net income | $2.19 | $2.07 | $2.30 | $1.84 | $.42 | $.84 |

| BHM—Historical: | Year Ended December 31, 1965 | 1966 | 1967 | 1968 | Six Months Ended June 30, 1968 | 1969 |
|---|---|---|---|---|---|---|
| Per Share of Common Stock: | | | | | | |
| Net income | $1.03 | $1.07 | $1.34 | $1.55 | $.65 | $.75 |

† Assumes that the new $1.40 Cumulative Convertible Preferred Stock is fully converted with the consequent elimination of the related dividend requirement on such preferred stock and the issuance of additional Common Stock on conversion.

* Anti-dilutive.

| Dividends: | Annual Rate |
|---|---|
| Per Share of Schenley and Surviving Corporation $1.40 Cumulative Convertible Preferred Stock | $1.40 |
| Per Share of Schenley and Surviving Corporation Common Stock: | |
| Dividends at current quarterly dividend rate (†35¢ quarterly) | $1.40 |
| Per 9/10 of a share of Surviving Corporation Stock based upon current quarterly dividend rate (equivalent to 31½¢ quarterly) | $1.26 |
| Per Share of BHM Common Stock: | |
| Dividends at current quarterly dividend rate (30¢ quarterly) | $1.20 |

† The Schenley Common Stock dividend of 35¢ quarterly, declared on August 28, 1969, represents an increase of 2½¢ over the previous quarterly Schenley Common Stock dividend of 32½¢ per share.

## MARKET PRICES OF COMMON STOCK

The following table sets forth the high and low sales and recent closing prices on the New York Stock Exchange of Schenley Common Stock and 9/10 of a share of Schenley Common Stock, both adjusted to give effect to the 3 for 2 stock split in March 1968, and BHM Common Stock (Buckingham until May 15, 1969), adjusted to give effect to the 2 for 1 stock split in January 1966, for the periods and date indicated below:

| | Schenley Common Stock | | | | BHM Common Stock | |
|---|---|---|---|---|---|---|
| | Per Share | | Per 9/10 of a Share | | | |
| | High | Low | High | Low | High | Low |
| Calendar Year: | | | | | | |
| 1965 | $26⅝ | $14⅞ | $23 15/16 | $13⅜ | $16 15/16 | $12⅛ |
| 1966 | 29⅜ | 16⅝ | 26 7/16 | 14 15/16 | 17⅞ | 11⅞ |
| 1967 | 46¼ | 20½ | 41⅝ | 18 7/16 | 22 | 13½ |
| 1968 | 57 | 32¼ | 51 5/16 | 29 | 30¾ | 18⅞ |
| 1969: | | | | | | |
| 1st Quarter | 44¾ | 35 | 40¼ | 31½ | 31¾ | 26⅛ |
| 2nd Quarter | 34 | 27¼ | 30⅝ | 24½ | 29¾ | 21¾ |
| 3rd Quarter | 29¾ | 22 | 26¾ | 19¾ | 23¾ | 19 |
| 4th Quarter thru November 14 | 26⅜ | 23¾ | 23¾ | 21⅜ | 22¾ | 19¾ |
| November 14, Closing Price | $25 | | $22½ | | $21⅞ | |

On June 25, 1969, the day before the announcement of Schenley's initial merger proposal, the closing prices of Schenley Common Stock and BHM Common Stock on the New York Stock Exchange were $28⅝ and $22⅝, respectively.

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## SURVIVING CORPORATION

### PRO FORMA STATEMENT OF CONSOLIDATED INCOME (Unaudited)

**(Assumed Issuance of $1.40 Cumulative Convertible Preferred Stock)**

The following pro forma statement of consolidated income has been adjusted for the proposed merger by assumed issuance in a pooling of interests, as at September 1, 1964, of 2,745,550 shares of $1.40 Cumulative Convertible Preferred Stock for 2,745,550 shares of BHM Common Stock. This pro forma statement of consolidated income should be read in conjunction with the statement of consolidated income of Schenley together with the related notes to financial statements applicable thereto and in conjunction with the information under "Proposed Merger" all included elsewhere herein.

(In Thousands)

| | Year Ended August 31, | | | | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 |
|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | | |
| Revenue: | | | | | | |
| Net sales | $460,763 | $477,873 | $517,996 | $550,348 | $188,933 | $290,460 |
| Other income—net | 714 | 1,244 | 1,506 | 791 | 783 | 623 |
| Total | 461,477 | 479,117 | 519,502 | 551,139 | 189,716 | 291,083 |
| Income deductions: | | | | | | |
| Cost of goods sold | 361,399 | 372,321 | 403,930 | 427,537 | 150,240 | 229,871 |
| Selling, advertising and administrative expenses | 59,964 | 59,544 | 64,775 | 75,906 | 27,291 | 35,833 |
| Interest charges | 6,993 | 8,875 | 9,582 | 11,558 | 4,588 | 6,595 |
| Total | 428,356 | 440,740 | 478,287 | 515,001 | 182,119 | 272,299 |
| | 33,121 | 38,377 | 41,215 | 36,138 | 7,597 | 18,784 |
| Provision for taxes on income | 14,270 | 16,630 | 18,330 | 16,650 | 3,530 | 9,590 |
| | 18,851 | 21,747 | 22,885 | 19,488 | 4,067 | 9,194 |
| Equity in net income of Seager Evans & Co., Ltd. | 1,484 | 1,677 | 1,680 | 1,529 | 857 | 444 |
| Income before extraordinary items | 20,335 | 23,424 | 24,565 | 21,017 | 4,924 | 9,638 |
| Extraordinary items | 6,224 | — | 1,642 | — | — | — |
| Pro forma net income | 26,559 | 23,424 | 26,207 | 21,017 | 4,924 | 9,638 |
| Dividend requirements on: | | | | | | |
| Preference Stock | 477 | 478 | 325 | 276 | 51 | 50 |
| $1.40 Cumulative Convertible Preferred Stock | 3,844 | 3,844 | 3,844 | 3,844 | 1,281 | 1,922 |
| | 4,321 | 4,322 | 4,169 | 4,120 | 1,332 | 1,972 |
| Pro forma net income applicable to common stock | $ 22,238 | $ 19,102 | $ 22,038 | $ 16,897 | $ 3,592 | $ 7,666 |
| Average outstanding common shares | 8,265 | 7,518 | 7,632 | 7,716 | 7,789 | 7,803 |
| Pro forma average outstanding common shares, assuming conversion of all $1.40 Cumulative Convertible Preferred Stock | 10,736 | 9,989 | 10,103 | 10,187 | 10,260 | 10,274 |
| Pro forma primary earnings per share of common stock (after preference and pro forma $1.40 Cumulative Convertible Preferred Stock dividend requirements): | | | | | | |
| Income before extraordinary items | $1.94 | $2.54 | $2.67 | $2.19 | $ .46 | $ .98 |
| Extraordinary items | .75 | — | .21 | — | — | — |
| Net income | $2.69 | $2.54 | $2.88 | $2.19 | $ .46 | $ .98 |
| Pro forma diluted earnings per share of common stock, after preference dividend requirements (conversion of Schenley Preference Stock, $.35 par value, would have no material effect on the following per share amounts): | | | | | | |
| Income before extraordinary items | $1.85 | $2.30 | $2.40 | $2.04 | * | $ .93 |
| Extraordinary items | .58 | — | .16 | — | — | — |
| Net income | $2.43 | $2.30 | $2.56 | $2.04 | * | $ .93 |

* Anti-dilutive.

## SURVIVING CORPORATION

### PRO FORMA STATEMENT OF CONSOLIDATED INCOME (Unaudited)

**(Assumed Issuance of Common Stock)**

The following pro forma statement of consolidated income has been adjusted for the proposed merger by assumed issuance in a pooling of interests, as at September 1, 1964, of 2,470,995 shares of Common Stock for 2,745,550 shares of BHM Common Stock. This pro forma statement of consolidated income should be read in conjunction with the statement of consolidated income of Schenley together with the related notes to financial statements applicable thereto and in conjunction with the information under "Proposed Merger" all included elsewhere herein.

**(In Thousands)**

| | Year Ended August 31, | | | | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 |
|---|---|---|---|---|---|---|
| | 1965 | 1966 | 1967 | 1968 | | |
| **Revenue:** | | | | | | |
| Net sales | $460,763 | $477,873 | $517,996 | $550,348 | $188,933 | $290,460 |
| Other income—net | 714 | 1,244 | 1,506 | 791 | 783 | 623 |
| Total | 461,477 | 479,117 | 519,502 | 551,139 | 189,716 | 291,083 |
| **Income deductions:** | | | | | | |
| Cost of goods sold | 361,399 | 372,321 | 403,930 | 427,537 | 150,240 | 229,871 |
| Selling, advertising and administrative expenses | 59,964 | 59,544 | 64,775 | 75,906 | 27,291 | 35,833 |
| Interest charges | 6,993 | 8,875 | 9,582 | 11,558 | 4,588 | 6,595 |
| Total | 428,356 | 440,740 | 478,287 | 515,001 | 182,119 | 272,299 |
| | 33,121 | 38,377 | 41,215 | 36,138 | 7,597 | 18,784 |
| Provision for taxes on income | 14,270 | 16,630 | 18,330 | 16,650 | 3,530 | 9,590 |
| | 18,851 | 21,747 | 22,885 | 19,488 | 4,067 | 9,194 |
| Equity in net income of Seager Evans & Co., Ltd. | 1,484 | 1,677 | 1,680 | 1,529 | 857 | 444 |
| Income before extraordinary items | 20,335 | 23,424 | 24,565 | 21,017 | 4,924 | 9,638 |
| Extraordinary items | 6,224 | — | 1,642 | — | — | — |
| Pro forma net income | 26,559 | 23,424 | 26,207 | 21,017 | 4,924 | 9,638 |
| Preference dividend requirements | 477 | 478 | 325 | 276 | 51 | 51 |
| Pro forma net income applicable to common stock | $ 26,082 | $ 22,946 | $ 25,882 | $ 20,741 | $ 4,873 | $ 9,587 |
| Pro forma average outstanding common shares | 10,736 | 9,989 | 10,103 | 10,187 | 10,260 | 10,274 |
| Pro forma earnings per share of common stock (after preference dividend requirements): | | | | | | |
| Income before extraordinary items | $1.85 | $2.30 | $2.40 | $2.04 | $ .47 | $ .93 |
| Extraordinary items | .58 | — | .16 | — | — | — |
| Net income | $2.43 | $2.30 | $2.56 | $2.04 | $ .47 | $ .93 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED INCOME

The following statement of consolidated income of Schenley and its subsidiaries for the five years ended August 31, 1968, has been examined by Arthur Andersen & Co., and for the four months ended December 31, 1968 has been examined by Haskins & Sells, independent public accountants, whose reports are based in part on the reports of other auditors, as set forth in their reports included elsewhere herein. The statement of consolidated income for the six months ended June 30, 1969 (including the related notes), not examined by independent public accountants, reflects in the opinion of Schenley all adjustments (which included only normal recurring adjustments) necessary to present fairly the income for such period. This statement should be read in conjunction with the financial statements of Schenley and related notes appearing elsewhere herein.

| | Fiscal Years Ended August 31 (Note a) | | | | | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 (Unaudited) |
|---|---|---|---|---|---|---|---|
| | 1964 | 1965 | 1966 | 1967 | 1968 | | |
| Revenue: | | | | | | | |
| Net sales (Note b) | $405,785,535 | $460,762,963 | $477,873,230 | $517,996,185 | $550,347,767 | $188,932,596 | $290,460,315 |
| Other income—net | 409,526 | 713,777 | 1,243,947 | 1,506,228 | 791,674 | 783,332 | 622,934 |
| | 406,195,061 | 461,476,740 | 479,117,177 | 519,502,413 | 551,139,441 | 189,715,928 | 291,083,249 |
| Income deductions: | | | | | | | |
| Cost of goods sold (Notes b and 2) | 331,452,967 | 361,399,187 | 372,321,531 | 403,930,555 | 427,537,354 | 150,240,185 | 229,870,874 |
| Selling, advertising and administrative expenses | 51,954,917 | 59,963,670 | 59,544,392 | 64,775,393 | 75,906,600 | 27,290,607 | 35,833,143 |
| Interest charges | 5,527,290 | 6,993,172 | 8,874,944 | 9,581,945 | 11,557,657 | 4,588,477 | 6,595,118 |
| Minority interest in the net income of BHM Industries, Inc. (Notes a and 1) | — | 2,597,822 | 2,953,831 | 3,480,758 | 4,222,538 | 1,402,826 | 2,069,172 |
| | 388,935,174 | 430,953,851 | 443,694,698 | 481,768,651 | 519,224,149 | 183,522,095 | 274,368,307 |
| | 17,259,887 | 30,522,889 | 35,422,479 | 37,733,762 | 31,915,292 | 6,193,833 | 16,714,942 |
| Provision for taxes on income (Notes 3 and 4): | | | | | | | |
| United States | 6,625,093 | 13,085,478 | 15,019,888 | 16,467,945 | 13,827,822 | 3,020,833 | 8,832,086 |
| Canada | 1,324,907 | 1,184,522 | 1,610,112 | 1,862,055 | 2,822,178 | 509,167 | 757,914 |
| | 7,950,000 | 14,270,000 | 16,630,000 | 18,330,000 | 16,650,000 | 3,530,000 | 9,590,000 |
| | 9,309,887 | 16,252,889 | 18,792,479 | 19,403,762 | 15,265,292 | 2,663,833 | 7,124,942 |
| Equity in net income of Seager Evans & Co., Ltd. (Notes a and 1) | 1,097,676 | 1,483,565 | 1,677,264 | 1,680,044 | 1,528,584 | 856,891 | 444,000 |
| Income before extraordinary items | 10,407,563 | 17,736,454 | 20,469,743 | 21,083,806 | 16,793,876 | 3,520,724 | 7,568,942 |
| Extraordinary items (Note c) | 911,238 | 6,224,192 | — | 1,642,062 | — | — | — |
| Net income (Note c) | 11,318,801 | 23,960,646 | 20,469,743 | 22,725,868 | 16,793,876 | 3,520,724 | 7,568,942 |
| Preference dividend requirements | 476,084 | 477,038 | 478,219 | 325,462 | 275,747 | 50,620 | 50,506 |
| Net income applicable to common stock | $ 10,842,717 | $ 23,483,608 | $ 19,991,524 | $ 22,400,406 | $ 16,518,129 | $ 3,470,104 | $ 7,518,436 |
| Average common shares outstanding—(Note d) | 8,924,637 | 8,265,182 | 7,518,146 | 7,631,628 | 7,715,844 | 7,788,843 | 7,802,806 |
| Per share of common stock (after preference dividend requirements) (Note d): | | | | | | | |
| Income before extraordinary items | $1.11 | $2.09 | $2.65 | $2.72 | $2.14 | $ .44 | $ .96 |
| Extraordinary items | .10 | .75 | — | .21 | — | — | — |
| Net income | $1.21 | $2.84 | $2.65 | $2.93 | $2.14 | $ .44 | $ .96 |
| Cash dividends | $ .66⅔ | $ .66⅔ | $1.13⅓ | $ .93⅓ | $1.25 | $ .65 | $ .65 |

Alphabetical note references pertain to the notes following this statement; numerical note references pertain to notes to the consolidated financial statements of Schenley included elsewhere herein.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME

**(Including Notes Applicable to Unaudited Period)**

(a) *Principles of consolidation:*

All significant subsidiary companies (other than Seager Evans & Co., Ltd.) have been consolidated including the accounts of BHM Industries, Inc. and its wholly-owned subsidiary, The Buckingham Corporation, since August 31, 1964, the date of Schenley's purchase of 52.66% of Buckingham's outstanding capital stock (now 52.66% of BHM's outstanding Common Stock).

The accounts of Seager Evans & Co., Ltd., a subsidiary in Great Britain in which Schenley owns 75% of the outstanding capital stock, have not been consolidated herein. Effective for the year ended August 31, 1965, Schenley adopted the policy of stating its investment at its equity in underlying net assets, and including in consolidated income its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager Evans. Schenley previously carried this investment at cost and included in consolidated net income only the dividends received. Retroactive application of this change in accounting policy had the effect of increasing net income as previously reported by $891,876 for the fiscal year ended August 31, 1964.

Reference is made to Note 1 to the Consolidated Financial Statements included elsewhere herein for further details.

(b) Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes as follows:

| Year Ended August 31 | Amount |
|---|---|
| 1964 | $243,000,000 |
| 1965 | 247,000,000 |
| 1966 | 258,000,000 |
| 1967 | 259,000,000 |
| 1968 | 258,000,000 |
| Four months ended December 31, 1968 | 96,000,000 |
| Six months ended June 30, 1969 | 143,000,000 |

(c) Extraordinary items consist of the following:

| Year Ended August 31 | Description | Total Gain | Federal Income Taxes | Gain as Reported |
|---|---|---|---|---|
| 1964 | Gains on sales of securities | $1,006,238 | $ 95,000 | $ 911,238 |
| 1965 | Gains on sales of securities | 4,724,192 | 1,180,000 | 3,544,192 |
| | Gain on sale of assets and business of a subsidiary | 3,570,000 | 890,000 | 2,680,000 |
| | | 8,294,192 | 2,070,000 | 6,224,192 |
| 1967 | Gain on sale of real estate | 2,190,062 | 548,000 | 1,642,062 |

In order to determine the total gain shown above, proceeds from the sales were reduced by cost, determined on a specific identification basis.

To conform to a pronouncement of the Accounting Principles Board of the American Institute of Certified Public Accountants, net income as previously reported for the fiscal years ended August 31, 1964 through 1967 has been restated to reflect the gains set forth above.

(d) The per share of common stock information reflects the effect of the 3 for 2 common stock split which was effective at the close of business on March 21, 1968.

(e) Because of the change from a fiscal year ending August 31 to a calendar year ending December 31, there are no comparative figures for the six months ended June 30, 1968.

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Unaudited net sales and net income for the nine months ended September 30, 1969 amounted to $437,482,597 and $11,720,761 ($1.49 per common share), respectively. In the opinion of the management of Schenley, the foregoing unaudited figures include all adjustments (which include only normal recurring accruals) necessary to present fairly the consolidated earnings for such period. Because of the change from a fiscal year ending August 31 to a calendar year ending December 31, there are no comparative figures for the nine months ended September 30, 1968.

Schenley's decline in net income for the fiscal year ended August 31, 1968 is attributable principally to the income tax surcharge, higher interest costs and other transitional costs relating to marketing and organizational changes. Schenley's operations for the four months ended December 31, 1968 were adversely affected by an East Coast dock strike, by a strike of clerks in provincial liquor stores in Quebec, and by efforts by Schenley as described under "History and Business of Schenley—Distribution and Marketing" below to relate its sales to wholesale distributors' depletions from inventory. Schenley's operations are traditionally seasonal in nature with the last four months of the calendar year accounting for a substantially greater than proportionate percentage of Schenley's sales and earnings for the entire year. Accordingly, the results of operations for the four months ended December 31, 1968, for the six months ended June 30, 1969 and for the nine months ended September 30, 1969 are not indicative of results of operations for a full year.

## BHM INDUSTRIES, INC.

### STATEMENT OF CONSOLIDATED INCOME

The following statement of income of BHM Industries, Inc. for the five years ended December 31, 1968 (See Note 1 of Notes to Financial Statements of BHM) has been examined by Haskins & Sells, independent certified public accountants, as stated in the opinion of that firm included elsewhere herein. The statement for the six month periods ended June 30, 1968 and 1969 has not been examined by independent certified public accountants; however, in the opinion of management of BHM, all adjustments (comprising only normal recurring accruals) necessary for a fair presentation of the operating results have been included in the statement for such periods. This statement should be read in conjunction with the financial statements of BHM and related notes included elsewhere herein.

| | Year ended December 31, | | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1964 | 1965 | 1966 | 1967 | 1968 | 1968 (Unaudited) | 1969 (Unaudited) |
| INCOME: | | | | | | | |
| Net sales (Note A) | $45,185,885 | $43,900,087 | $45,912,716 | $51,924,388 | $63,261,245 | $25,564,069 | $28,569,163 |
| Interest—net (includes tax-exempt interest: Years ended December 31: 1966 — $155,200; 1967 — $384,441; 1968—$819,940. Six months ended June 30: 1968—$340,528; 1969—$600,044) | 584,914 | 853,521 | 1,138,499 | 1,313,217 | 1,320,285 | 651,736 | 695,476 |
| Dividend income (net of foreign taxes withheld) and sundry | 30,306 | 29,366 | 28,985 | 53,714 | 49,034 | 10,931 | 16,676 |
| TOTAL | 45,301,105 | 44,782,974 | 47,080,200 | 53,291,319 | 64,630,564 | 26,226,736 | 29,281,315 |
| DEDUCTIONS: | | | | | | | |
| Cost of sales (Note A) | 30,415,982 | 29,377,083 | 31,503,368 | 34,689,254 | 40,895,857 | 16,578,413 | 18,091,955 |
| Selling, delivery, general and administrative expenses | 2,937,456 | 3,311,928 | 2,667,593 | 3,024,557 | 4,219,645 | 1,680,691 | 1,924,214 |
| TOTAL | 33,353,438 | 32,689,011 | 34,170,961 | 37,713,811 | 45,115,502 | 18,259,104 | 20,016,169 |
| INCOME BEFORE TAXES ON INCOME | 12,447,667 | 12,093,963 | 12,909,239 | 15,577,508 | 19,515,062 | 7,967,632 | 9,265,146 |
| PROVISION FOR TAXES ON INCOME: | | | | | | | |
| Federal | 6,195,000 | 5,740,000 | 5,884,000 | 6,823,000 | 9,130,000 | 3,700,000 | 4,304,000 |
| State and City | 390,000 | 380,000 | 795,000 | 982,000 | 1,375,000 | 503,000 | 590,000 |
| | 6,585,000 | 6,120,000 | 6,679,000 | 7,805,000 | 10,505,000 | 4,203,000 | 4,894,000 |
| NET INCOME | $ 5,862,667 | $ 5,973,963 | $ 6,230,239 | $ 7,772,508 | $ 9,010,062 | $ 3,764,632 | $ 4,371,146 |
| NET INCOME PER SHARE (Note B) | $1.01 | $1.03 | $1.07 | $1.34 | $1.55 | $.65 | $.75 |
| DIVIDENDS PER SHARE OF COMMON STOCK (Note B) | $ .34 | $ .63 | $1.00 | $1.05 | $1.20 | $.60 | $.60 |

NOTES:

A. Net sales include sales on both the in-bond and duty-paid basis. In order to facilitate comparison between periods, the sales on a duty-paid basis for the five years ended December 31, 1968 and the six months ended June 30, 1968 and 1969 would have been approximately $74,122,000, $74,876,000, $82,920,000, $97,233,000, $116,009,000, $47,734,000 and $53,028,000, respectively, with accompanying increases in cost of sales to approximately $59,352,000, $60,353,000, $68,510,000, $79,998,000, $93,644,000, $38,748,000 and $42,551,000, respectively, resulting in no change in net income.

B. Based upon 5,800,000 shares outstanding, gives effect to the 2-for-1 stock split in January 1966 and to the conversion of the Class B Common Stock of Buckingham outstanding prior to October 1966. The dividends per share on the Buckingham Class A Common Stock in 1964 and 1965 were $.75 and $.81¼, respectively, before giving effect to the conversion of the Buckingham Class B Common Stock but after adjustment for the 2-for-1 stock split.

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In the opinion of the management of BHM, the following unaudited figures for the nine month periods ended September 30, 1968 and 1969 include all adjustments (which included only normal recurring accruals) necessary to present fairly the consolidated earnings for such periods:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 1968 | 1969 |
| | (Unaudited) | |
| Net Sales* | $50,162,800 | $47,541,141 |
| Net Income | $ 7,097,153 | $ 7,539,188 |
| Net Income Per Share | $1.22 | $1.30 |

* Sales on a duty-paid basis for the nine months ended September 30, 1968 and 1969 were $92,295,900 and $88,951,419, respectively. The 1968 third quarter sales were boosted by significant advanced trade purchases to assure adequate supplies of *Cutty Sark* Scotch Whisky for the holiday season because of a threatened longshoremen's strike.

Because BHM's business is seasonal in character, the operating results for the unaudited six and nine month periods ended in 1968 and 1969 are not indicative of operating results which may normally be expected for a full year.

## HISTORY AND BUSINESS OF SCHENLEY

Schenley was incorporated in Delaware on July 13, 1933 under the name Schenley Distillers Corporation. Its name was changed to Schenley Industries, Inc. on January 4, 1949. Schenley's executive offices are located at 1290 Avenue of the Americas, New York, N. Y. 10019. The term "Schenley", as used herein, includes Schenley Industries, Inc. and its active subsidiaries and affiliates, except as the context otherwise requires.

Schenley is engaged in the production, importation and sale of alcoholic products for beverage purposes, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties. It is also engaged in various related activities such as the production and sale of cooperage and farm feeds, which in the aggregate are not significant in relation to its overall business. Schenley owns 52.66% of the outstanding capital stock of BHM (see "History and Business of BHM") and 75% of the outstanding capital stock of Seager Evans & Co. Ltd., a British distilling corporation. Schenley has under active consideration the sale of its wine business, which is not significant in relation to the financial position of Schenley or the results of its operations.

### Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

*Domestic Alcoholic Beverages*—Brands of domestic whiskies owned by Schenley include *Ancient Age, J. W. Dant, I. W. Harper* and *Old Charter* bourbon whiskies; *Melrose, Park & Tilford, Schenley Reserve* and *XL* blended whiskies; and *George Dickel* and *Tennessee Walking Horse* Tennessee whiskies. Schenley owns numerous other brands of domestic gins, brandies (including *Coronet*), vodkas (including *Samovar*), cordials, prepared cocktails and other domestic spirit beverages. Schenley owns the *Dubonnet* brand in the United States and owns and distributes *Ron Carioca* Puerto Rican rum.

*Imported Alcoholic Beverages*—Brands of imported beverages owned by Schenley include *Long John* and *Park & Tilford* Scotch whiskies; *MacNaughton* and *OFC* Canadian whiskies; *Coates Plymouth* and *Seager's* gins; as well as other brands of rum, gin, brandy, liqueur, tequila and wine. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include *Dewar's White Label* Scotch Whisky; *Otard* cognac; *Mateus* wines; and the *Stock* line of vermouth, brandy, liqueurs and other products. *Dewar's White Label* Scotch Whisky has been distributed under contracts which have been renewed from time to time since 1936 and the latest of which extends to April 1972. Agreements with respect to other distribution rights expire at various dates from August 31, 1971 through April 30, 1990.

*Domestic Wines*—Brands of domestic wines owned by Schenley include *Cook's Imperial, Cresta Blanca* and *Roma.*

Schenley sells a full line of alcoholic beverages, which it seeks to market in all price categories. The extent of consumer acceptance and profitability varies among Schenley's product lines and among the brands in each line. No single domestic brand accounted for as much as 10% of case sales for the fiscal year ended August 31, 1968, *Ancient Age*, a straight bourbon whiskey, accounted for approximately 5.9% of case sales and sales of *Dewar's White Label* Scotch Whisky accounted for approximately 6.7% of case sales during such period. Approximately 10.9% of Schenley's consolidated case sales (and approximately 11.3% of Schenley's consolidated revenues) during such period, computed without elimination of the outstanding 47.34% minority interest, represented sales by Buckingham of *Cutty Sark* Scotch Whisky.

Since October 1968, Schenley has eliminated a number of its minor brands which were marginally profitable or unprofitable. The elimination of such marginal and unprofitable brands is under constant scrutiny.

Among the principal trends in recent years in the domestic market has been the attainment of a greater share of the market by straight whiskies as against blended whiskies and an increase in the share of the market accounted for by Scotch whiskies and Canadian whiskies among the imports.

The following table sets forth the approximate percentage of total case sales, excluding sales outside the United States and Canada, represented by the various principal categories of alcoholic beverages sold by Schenley during the three fiscal years ended August 31, 1968. Each such principal category has been profitable. However, Schenley's profits on the sale of straight whiskies, Canadian whiskies and Scotch whiskies generally are higher than on the sale of its other products.

| | 1966 | 1967 | 1968 |
|---|---|---|---|
| Blended whiskies | 11.5% | 10.5% | 8.6% |
| Straight whiskies | 29.9 | 32.0 | 34.1 |
| Scotch whiskies(1) | 19.2 | 19.6 | 19.6 |
| Canadian whiskies | 8.4 | 10.6 | 11.3 |
| Wines | 18.1 | 14.8 | 14.1 |
| Other(2) | 12.9 | 12.5 | 12.3 |

(1) All sales of Buckingham are included.

(2) Gins, vodkas, rums, brandies, cocktails, cordials, etc.

As used in the foregoing table and elsewhere herein, the term "case sales" includes bottled goods, and also bulk sales of alcoholic beverages on the basis of an average of 2.4 proof gallons to the case as to distilled spirits, and an average of 3 wine gallons to the case as to wines.

**Distribution and Marketing**

In the domestic market, 18 states have established liquor distribution systems under which sales of alcoholic beverages are made directly through state liquor control boards and commissions. Schenley sells to all of these states. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers, and in certain markets through Schenley's wholly-owned wholesalers.

In the fiscal year ended August 31, 1968, no wholesale distributor accounted for more than 2.0% and no state control board accounted for more than 3.8% of total cases sold. The greater portion of Schenley's sales are made in the open states. Since late 1968 Schenley has endeavored, to a greater extent than previously, to relate its sales to wholesale distributors to such distributors' own depletions from inventory.

Schenley maintains sales organizations in eleven countries outside of the United States. Sales in foreign markets would account for approximately 8.7% of total dollar sales for the fiscal year ended August 31, 1968 on the basis of inclusion of the sales in those markets of Seager Evans & Co. Ltd. attributable to Schenley's ownership interest.

Major trademarks of Schenley are registered in important countries of the world. Trademark licensing agreements are in effect with customers in 17 foreign countries, who produce products under these trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 15 foreign countries on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley.

Schenley advertises its alcoholic beverage products extensively, using various media, including magazines, newspapers, outdoor signs and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to close regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. In early 1969 Schenley closed the in-house advertising agency

which had theretofore placed the principal share of its advertising, appointed four independent advertising agencies, three of which had never before held a liquor account, and reappointed a fifth agency with an expanded role. Schenley continues to place outdoor advertising through an agency owned by it. Under Schenley's advertising programs for 1969 its expenditures for advertising have been increased and more heavily concentrated on Schenley's major brands.

**Inventories and Raw Materials**

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley ages its whiskies for four years or more. As a result, inventories are larger in relation to sales and total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future. From time to time, Schenley purchases bulk whiskies from, and sells bulk whiskies to, others. The distilling industry's productive capacity is substantially greater than the present rate of consumption. Schenley believes that its inventories of whiskies and its productive capacity are greater in relation to its total sales than is the case in the industry in general.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, grapes, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains, some grapes, and the other materials, except molasses, from numerous sources. Schenley, at the present time, purchases its molasses from one supplier for convenience; however, other sources are available. Schenley produces its own barrels, purchasing the rough staves and heading used in their production, and sells barrels to other distillers and users.

Schenley grows in its own vineyards in California much of the supply of grapes used in the production of its wines and brandies, purchasing quantities of grapes from other growers in accordance with its requirements.

Since Schenley's basic raw materials are agricultural products, prices and costs are subject to the usual influences on that market, including climate, governmental production and marketing controls and price supports. The markets for these raw materials are competitive and there are many suppliers. Schenley is not dependent on any one outside supplier for any of its raw materials. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

**Regulation and Taxation**

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. In recent years several states, led by Kansas and New York, have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in other states. States in which alcoholic beverages are distributed through state agencies have for many years required suppliers to make warranties of a like tenor. Several states regulate the mark-up which may be made in prices at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships by local option to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in Canada and other countries.

The products sold by Schenley are subject to a Federal excise tax on distilled spirits of $10.50 per proof gallon ($10.80 per proof gallon on rectified products), varying Federal customs duties on imports, the most important of which, in relation to Schenley's products, are duties of $.81 per gallon on Scotch whiskies and $1.00 per gallon on Canadian whiskies, and other excise taxes, the most important of which are state gallonage taxes varying in amount from $.80 to $5.60 per gallon.

**Employees**

Schenley currently employs approximately 6,000 people regularly, and approximately 7,600 people at peak seasons, in the United States and Canada. Since October 1968, Schenley's work force has been reduced by a net of approximately 400 persons. It has contracts with a number of labor unions, expiring at various dates through April 1972, covering classes of non-executive employees. During recent years Schenley has granted wage increases from time to time. No single increase has been substantial in relation to total wages paid. Negotiations with a union representing a substantial number of production employees and with several other unions are in progress.

There are approximately 1,100 employees in countries other than the United States and Canada of whom approximately 300 are members of labor organizations with which Schenley has contracts.

Schenley maintains pension plans and other benefit plans for its employees, some of which are contributory and some of which are non-contributory, and contributes to union pension and welfare plans.

In general, labor relations have been satisfactory and there have been no major work stoppages in recent years that are material to Schenley's overall business. At the date of this Proxy Statement, 70 employees who are truck drivers and helpers in New York City and who are members of Local 816 of the International Brotherhood of Teamsters are on strike against Schenley and in connection therewith, 242 additional employees, principally salesmen, warehousemen and office personnel, have refused to cross the union's picket lines. Such strike, which commenced on November 3, 1969, is part of a general work stoppage by truck drivers and other personnel who deliver alcoholic beverages in New York City. At the date of this Proxy Statement, it is not possible to estimate the length of the strike or its effect on Schenley's overall business.

**Property**

Schenley operates 27 plants for the production of alcoholic beverages, including the 15 plants of Seager Evans & Co. Ltd., the British subsidiary in which Schenley owns a 75% stock interest. These plants have an aggregate daily distilling capacity of approximately 237,000 proof gallons of whiskey or distilled spirits; facilities for bottling under normal conditions an aggregate in excess of 80,000 standard cases of product in an 8 hour day; and storage facilities for a total of approximately 3,959,600 barrels of aged and aging distilled spirits.

Schenley has 9 warehousing plants, some of which have distilling equipment, containing storage space for a total of approximately 1,213,000 barrels. In addition, Schenley has 11 inactive plants, some of which have distilling equipment, containing storage space for a total of approximately 451,000 barrels.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Frankfort and Louisville, Kentucky; Schenley, Pennsylvania; Tullahoma, Tennessee; and Fresno, California. In Canada, Schenley subsidiaries own distilleries at Valleyfield, Quebec and North Vancouver, British Columbia. Cooperage plants are located at Louisville, Kentucky and Monroe, Louisiana. Schenley has plants for the distillation of rum in Puerto Rico and the Virgin Islands. Schenley owns four plants for the production of wine and brandy in California and owns ranches for the production of grapes in that state.

Except for one of its warehousing plants, all of Schenley's distilleries and plants are owned in fee. The plants are generally of sound construction and adequately equipped for carrying on Schenley's business, and, except for the inactive plants referred to above, are in good operating condition.

The following table shows expenditures by Schenley for property additions and retirements and sales during the following periods:

| | Property Additions | Property Retirements and Sales |
|---|---|---|
| Year ended August 31: | | |
| 1966 | $4,366,874 | $2,029,927 |
| 1967 | 5,765,940 | 985,125 |
| 1968 | 7,962,908 | 1,497,412 |
| Four months ended December 31, 1968 | 1,768,938 | 951,507 |
| Six months ended June 30, 1969 | 2,292,348 | 751,957 |

**Litigation**

There is presently pending in the United States District Court for the Southern District of New York a civil antitrust suit filed on April 25, 1966 by the United States Department of Justice against Schenley and Buckingham, asserting that Schenley's acquisition of shares of Buckingham's outstanding stock on August 31, 1964 was a violation of the Clayton Act. The suit seeks, in part, an order requiring Schenley to divest itself of its interest in Buckingham. Schenley and Buckingham have each filed answers denying the material allegations of the complaint and asserting, in addition, other affirmative defenses to the action. The case is presently on the trial calendar. No trial date has yet been fixed. Discussions between Schenley and the Department of Justice as to a consent decree in the action are currently pending.

Two additional civil suits are pending in the U. S. District Courts for the District of Colorado and for the District of New Jersey. These suits, brought by distributors of Buckingham in Colorado and New Jersey, respectively, name Schenley, Buckingham and others as defendants, and seek divestiture by Schenley of its interest in Buckingham, additional injunctive relief, and alleged actual, treble or punitive damages aggregating $41,000,000 for alleged violations of the antitrust laws and alleged breaches of exclusive distributorship agreements with Buckingham. In the New Jersey cases, Schenley and Buckingham have each filed answers denying the material allegations of the complaints and asserting in addition affirmative defenses to the action. Similar answers will be filed by Schenley and Buckingham in the Colorado action on November 18, 1969.

See "History and Business of BHM—Litigation" for a description of certain additional litigation against BHM and Schenley, some of which relates to the proposed merger of BHM and Schenley.

In April 1969 a complaint was filed in the United States District Court for the Northern District of California by Setrakian & Co., Robert Setrakian, and Mid-State Horticultural Company, as plaintiffs, against Schenley, Glen Alden, McCrory and Rapid. The complaint alleged four causes of action: (1) a claim of breach of an alleged oral agreement between Schenley and the plaintiffs relative to the sale by Schenley of vineyards and wineries and to the execution of a brandy supply contract; (2) a claim that Schenley made false representations in connection with said oral agreement in order to induce plaintiffs to enter negotiations and change position to their detriment; (3) a claim for violation of Section 15 of Title 15 U. S. Code in which plantiffs charge that Schenley and the other defendants, for the purpose of obtaining confidential information to give them a competitive advantage over plaintiffs with respect to the wine business and so as to eliminate plaintiffs from competition, conspired to lead the plaintiffs to believe that Schenley would divest itself of its wine business and would honor its agreement to sell the same to plaintiffs; and (4) a claim for specific performance by Schenley of the alleged oral agreement to sell real estate for $6,900,000. In the complaint the plaintiffs request damages, including legal fees and accounting expenses, against Schenley, of $40,320,000 in the first and second causes of action, additional punitive damages of $25,000,000 under the second cause of action, and $100,000 as attorneys' fees and costs in the pending action. Plaintiffs also requested leave to amend the complaint at a later date to claim damages against all defendants under the third cause of action. Schenley, the only defendant which has been served in the action, has filed an answer denying all of the material allegations of the complaint.

Several legal proceedings described below have been commenced by persons claiming to be stockholders of Schenley with respect to Glen Alden's acquisition in 1968 of its present stock interest in Schenley or transactions related thereto.

Three actions have been instituted by Andrew Allen, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 25, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about March 26, 1968) and one in the United States District Court, Southern District of New York (instituted on or about March 25, 1968). In each case the defendants, in addition to Glen Alden, are Schenley and each of its then directors. In each case the complaint, in essence, alleges that (a) Glen Alden induced the directors of Schenley to breach their fiduciary obligations in connection with the transactions contemplated by the Stock Purchase Agreement under which Glen Alden acquired an aggregate of 1,417,689 shares, approximately 18%, of Schenley Common Stock from Lewis S.

Rosenstiel and six other related sellers; (b) Glen Alden made certain false and misleading statements with respect to the aforesaid transactions; (c) Glen Alden paid the Sellers under the Stock Purchase Agreement a price for their shares of Schenley Common Stock in excess of that proposed to be offered to the other holders of Schenley Common Stock pursuant to the Stock Purchase Agreement; (d) Glen Alden, by such conduct, deprived Schenley of an opportunity to sell its assets and deprived its stockholders of an opportunity to sell their shares at the best obtainable prices; and (e) Schenley's cash and other assets are being utilized by Glen Alden and Lewis S. Rosenstiel to meet the obligations incurred in connection with the transactions contemplated by the Stock Purchase Agreement. In each case the complaint sought to enjoin Glen Alden from consummating the Schenley Exchange Offer under which Glen Alden increased its holdings of Schenley Common Stock to 88% and seeks to recover from Glen Alden and the individual defendants their alleged profits and the alleged losses of Schenley and its stockholders, and attorneys' fees. In the case instituted in the United States District Court, the complaint also alleges that the transactions described are in violation of Section 10(b) of the Securities Exchange Act of 1934. Glen Alden, Schenley and certain other defendants have filed answers denying the material allegations of the complaints in these actions.

Two actions have been instituted by Irving Miller, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 26, 1968) and one in the Court of Chancery of the State of Delaware (instituted on or about March 28, 1968). In the "Miller Delaware case", the defendants are substantially the same as those described above in the Allen cases. The complaint in this case alleges that (a) Glen Alden aided and abetted defendant Lewis S. Rosenstiel in an alleged violation of his fiduciary duties to Schenley and its stockholders by paying to the sellers under the Stock Purchase Agreement, an alleged premium for their shares of Schenley Common Stock, (b) the individual defendants agreed, in return for such premium, to give Glen Alden control of the Board of Directors of Schenley and (c) that under an alleged proposed agreement with another corporation Schenley's stockholders would have received a greater price for their shares of Schenley Common Stock. The complaint sought an injunction against Glen Alden's taking control of the Schenley Board of Directors, and seeks to recover the alleged profits made by defendants and damages for alleged waste as a result of the transactions complained of, and attorneys' fees. Glen Alden and Schenley have filed answers denying the material allegations of the complaint in this action. In the "Miller New York case" the defendants are the same as in the Miller Delaware case except that Glen Alden is not named as a defendant. The allegations in the complaint and present status of the case are substantially the same as in the Miller Delaware case.

Four actions have been instituted by Alexander Kahan, representatively on behalf of the Schenley Common Stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about April 1, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about April 1, 1968), one in the United States District Court, Southern District of New York (instituted on or about March 27, 1968), and one in the United States District Court, District of Delaware (instituted on or about March 28, 1968). The two New York actions are also brought derivatively on behalf of Schenley. The defendants are Glen Alden, the then directors of Schenley, the Dorothy H. and Lewis Rosenstiel Foundation and Meshulam Riklis; Schenley is also a defendant in the two "Kahan New York cases". The allegations of the complaints, as amended, in the two "Kahan New York cases" and the "Kahan Delaware Federal Case" are, in essence, that (a) Glen Alden paid Mr. Rosenstiel a premium for his shares of Schenley Common Stock; (b) Glen Alden made certain false and misleading statements (including omissions to state material facts) with respect to the transactions contemplated by the Stock Purchase Agreement; and (c) the defendants deprived Schenley's stockholders of the opportunity to sell their shares on terms equal or comparable to those received by Mr. Rosenstiel, or on terms more favorable than those specified in the Exchange Offer. The complaints seek recovery of the alleged premium, recovery of the alleged consideration lost to Schenley's stockholders as a result of their being prevented from selling their stock on more favorable terms, an accounting by all defendants in connection with the described transactions, and attorneys' fees. The allegations of the complaint in the "Kahan Delaware State case" are essentially the same as in the other cases hereinabove mentioned,

and the complaint seeks to recover from all defendants the alleged premium paid in connection with the Stock Purchase Agreement and seeks an accounting by all defendants in connection with the described transactions, and attorneys' fees. Glen Alden, Schenley and certain other defendants have filed answers denying the material allegations of the complaints in the "Kahan New York cases". Plaintiff has conceded that by virtue of the terms of the Schenley Exchange Offer his basic claims have been rendered moot. However, he asserted in the Delaware Federal case, in a petition to recover attorneys' fees, that the Schenley Exchange Offer was increased because of the actions he instituted, and he sought to recover attorneys' fees for the result allegedly thus procured. Glen Alden and certain other defendants moved to dismiss plaintiff's petition, which motion was granted on June 10, 1969. On July 8, 1969 plaintiff's complaint in the Delaware Federal case was dismissed. On July 23, 1969, plaintiff filed a notice of appeal from these decisions to the United States Court of Appeals for the Third Circuit.

Schenley, Lewis S. Rosenstiel and Meshulam Riklis are defendants in an action brought in United States District Court for the Southern District of New York by Miriam Wolf, who has alleged that she was a stockholder of Schenley who sold her stock holdings in whole or in part between February 1, 1968 and March 20, 1968. The action is brought pursuant to Section 10 (b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder to require defendants to pay to plaintiff and all other sellers of Schenley Common Stock between said dates the damages actually sustained by them in respect of such sales, together with exemplary damages. Schenley and Mr. Riklis have filed answers denying the material allegations of the complaint in this action.

On or about August 19, 1968, an action was commenced in the United States District Court for the Southern District of New York by Nathaniel Kornreich, an alleged owner of shares of Schenley who purports to bring this action on behalf of himself and all other shareholders of Schenley similarly situated and on behalf of Schenley. The defendants, in addition to Schenley, are McCrory, Rapid, Sol Kittay and Jeffrey Kittay. The complaint alleges, in essence, that (i) the defendants, other than Schenley, purchased an aggregate of 916,950 shares of the Common Stock (over 10% of the total issued and outstanding shares) of Schenley between April 1, 1968 and April 24, 1968 for the purpose of advancing their common interest in Glen Alden and as part of a plan and scheme to bolster the position of Glen Alden with respect to Schenley Common Stock and (ii) on or about August 8, 1968, the defendants, other than Schenley, tendered the aforesaid shares of Schenley to Glen Alden pursuant to Glen Alden's Exchange Offer, dated August 8, 1968, thus realizing a profit, which profit was not recovered by, and is now payable to, Schenley by virtue of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The relief requested is that the defendants, other than Schenley, account to Schenley for all profits realized by them from the purchase and sale of the aforesaid Schenley Common Stock within the period of less than six months during the year 1968 and thereupon pay over to Schenley the profits so realized, with interest, together with costs and disbursements.

On or about September 20, 1968, Schenley was served with a summons and complaint in an action instituted in the United States District Court, Southern District of New York, by Irving Miller, an alleged stockholder of Schenley who purports to bring this action on behalf of Schenley. The defendants, in addition to Schenley, are Rapid and McCrory. The complaint alleges, in essence, that (i) the defendants (Rapid and McCrory) and Glen Alden acted in concert and were collectively a person within the meaning of Section 16 of the Exchange Act with respect to their transactions in Schenley Common Stock; (ii) by reason of Glen Alden's purchase of 1,417,689 shares of Schenley Common Stock on or about March 20, 1968, Rapid and McCrory became the indirect beneficial owner of more than ten per cent of the outstanding Common Stock of Schenley; and (iii) said defendants purchased an aggregate of 813,250 shares of Schenley Common Stock between April 1, 1968 and April 24, 1968 and, in or about August 1968 and within six months of the aforesaid purchases, sold, at a profit, the aforementioned shares of Schenley to Glen Alden pursuant to Glen Alden's Exchange Offer, dated August 8, 1968, which profits are recoverable by Schenley under Section 16(b) of the Exchange Act. The complaint seeks a judgment requiring that the defendants, other than Schenley, pay over to Schenley the amounts of their respective profits, plus any dividends received on Schenley Common Stock with interest, together with costs and disbursements.

On or about October 31, 1968, an action was commenced in the United States District Court for the Southern District of New York by Isaac Fuchs, an alleged owner of shares of Schenley, who purports to bring this action on behalf of himself and all other stockholders of Schenley similarly situated and on behalf of Schenley. The defendants are the same as in the Miller action described in the preceding paragraph. The complaint alleges, in essence, that (i) the defendants, other than Schenley, purchased an aggregate of 916,950 shares of the Common Stock (over 10% of the total issued and outstanding shares) of Schenley between April 1, 1968 and April 24, 1968 for the purpose, among other things, of furthering their interest and investment in Glen Alden and as part of a plan and scheme to strengthen Glen Alden's control over Schenley and (ii) on or about August 30, 1968, within a six month period of the above purchases, the defendants, other than Schenley, sold the aforesaid shares of Schenley Common Stock to Glen Alden for cash and other property, thus realizing a profit, which profit was not recovered by and is now owing, with interest, to Schenley by virtue of the provisions of Section 16(b) of the Exchange Act. The complaint demands that judgment be entered in favor of Schenley against the other defendants for all profits realized by them from the purchase and sale of the aforesaid Schenley Common Stock within a six month period, with interest, together with costs and disbursements.

On November 29, 1968 the Kornreich, Miller and Fuchs cases immediately above described were consolidated with one another.

There is presently pending in the United States District Court for the Eastern District of Wisconsin a civil antitrust suit filed on October 1, 1959 by the United States Department of Justice against Pabst Brewing Company, Schenley Industries, Inc. and The Val Corporation alleging that Pabst's acquisition of the assets and business of the Blatz Brewing Company from Schenley on July 30, 1958 was a violation of the Clayton Act. On February 27, 1969, the Court found that such acquisition was a violation of the Clayton Act. On August 6, 1969 the Court ordered divestiture by Pabst of the trademarks, trade names and other intangible assets of the Blatz business, reserving for a future order the possible divestiture of the former Blatz brewery and adjacent properties. To date, no relief has been requested against Schenley.

In September 1968 two actions were instituted by Charles P. Liboff, an alleged stockholder of Schenley, derivatively on behalf of Schenley and representatively on behalf of the stockholders of Schenley. One action was commenced in the United States District Court, Southern District of New York, and the other was commenced in the Supreme Court of the State of New York, County of New York. The defendants in each action are Glen Alden, Investors Diversified Services, Inc., Investors Variable Payment Fund, Inc., Carter, Berlind & Weill, Inc., Lewis S. Rosenstiel and Schenley. The complaints allege, in essence, that the defendants other than Schenley violated or participated in the violation of alleged fiduciary duties owing to Schenley by wrongfully disclosing certain material inside information relating to Schenley in connection with the sale by Glen Alden in March 1968 of certain shares of Schenley Common Stock to Investors Variable Payment Fund, Inc. The complaints seek an accounting by all defendants other than Schenley for their profits and for all damages sustained by Schenley, and attorneys' and accountants' fees. Glen Alden, Schenley, and certain other defendants have filed answers in these actions.

Various other legal proceedings are pending by and against Schenley or its subsidiaries involving miscellaneous causes of action arising from the business. Schenley considers that the final disposition of these proceedings will not involve recoveries against it in amounts which are material in relation to its consolidated financial position.

**Certain Transactions**

Schenley has sublet from Glen Alden 31.39% of the total floor space which Glen Alden has leased from the owners of a commercial building to be located at 888 Seventh Avenue, New York, New York at an annual rental of approximately $875,000, which is substantially equivalent to Glen Alden's cost for the space subleased to Schenley.

**Possible Future Developments**

Glen Alden currently owns approximately 88% of the outstanding Schenley Common Stock. Schenley has been advised that, with a view toward simplifying the present corporate structure of Glen

Alden and its subsidiaries, the management of Glen Alden has under consideration the possible future merger or consolidation of Schenley and Glen Alden. No decision has yet been made as to whether or when any such merger or consolidation might be proposed or as to the form or terms of such a transaction.

## HISTORY AND BUSINESS OF BHM

### General

BHM was incorporated under the laws of the State of Delaware on March 20, 1969 in connection with a reorganization plan, consummated on May 15, 1969, pursuant to which Buckingham became a wholly-owned subsidiary of BHM.

BHM's executive offices are located at 620 Fifth Avenue, New York, New York 10020. Its principal assets consist of its interest in Buckingham and certain certificates of deposit and state and municipal bonds obtained from Buckingham as a dividend. As at June 30, 1969, BHM's and Buckingham's consolidated portfolio of certificates of deposit and state and municipal bonds had a cost, which approximated market, of approximately $32,710,000.

Substantially the entire business of Buckingham consists of the importation and sale of *Cutty Sark* Scotch Whisky, the brand name of which is owned by Berry Bros., an English firm established in the 17th century. Buckingham has the sole right to import *Cutty Sark* Scotch Whisky for resale in the United States under the terms of a contract with Berry Bros., the expiration date of which is January 1, 2000 (see "Agreements with British Companies").

*Cutty Sark* Scotch Whisky is an 86 proof quality liquor, made up of 100% Scotch whiskies, which are distilled, blended and bottled in Scotland. It sells in the upper part of the price range of the Scotch whiskies which are in the popular priced field. For the year ended December 31, 1968 sales of Buckingham on a duty-paid basis were $116,008,963.

The success of *Cutty Sark* Scotch Whisky in the United States has been due to the efforts of Buckingham, with the active cooperation of Berry Bros. and Robertson & Baxter Limited ("Robertson"), the latter company being principally responsible for providing blended Scotch whisky to Berry Bros. for bottling into *Cutty Sark* Scotch Whisky. Buckingham, Berry Bros. and Robertson have an agreement pursuant to which the three parties thereto agree to use their best efforts to ensure the availability of an adequate supply of whisky suitable for blending into *Cutty Sark* Scotch Whisky and to promote the sale and consumption of *Cutty Sark* Scotch Whisky (see "Agreements with British Companies"). To implement this program, it has been the practice for Buckingham to maintain in Scotland with Robertson certain inventories of immature and partially matured whisky. However, the amount of *Cutty Sark* Scotch Whisky produced from the bulk whisky inventories maintained by Buckingham is substantially less than its present requirements.

The only products other than *Cutty Sark* Scotch Whisky sold by Buckingham are *St. James's* Scotch Whisky and *Berry Bros.'* London Dry Gin. These products are premium priced brands also owned by Berry Bros. and represent less than one-tenth of one percent of Buckingham's sales.

### Distribution, Regulation and Taxes

In states which have established liquor monopolies, Buckingham makes sales to liquor commissions and similar organizations. Sales in monopoly states are handled directly from Buckingham's New York office.

In all other states of the United States, Buckingham sells to independent distributors who, in turn, sell to licensees in their respective areas. There are at present approximately 90 such distributors (including 11 owned by Schenley), all of whom distribute other brands, some of which are competitive with *Cutty Sark* Scotch Whisky. No single distributor buys more than 6% of Buckingham's products, treating each of the Schenley owned distributors as a separate distributor. Prior to July 2, 1969 John V. Elliott Co., Chicago, represented Buckingham as a sales marketing representative in connection with all sales to distributors. On such date, Buckingham purchased all the capital stock of John V. Elliott Co. for $2,000,000, payable $580,000 in cash and the balance in 4% four year notes payable in equal annual installments. Thereafter, on the same date Buckingham entered into a contract with Walter

J. Jahn Company, Inc., providing for the appointment of such company as Buckingham's exclusive sales and marketing representative in connection with sales to distributors. The contract runs for a period of five years and is subject to automatic renewal for additional periods of one year each unless terminated by 180 days' notice prior to the end of any such period. Mr. Walter J. Jahn, the principal stockholder of Walter J. Jahn Company, Inc., has represented Buckingham in ten eastern states of the United States and in Puerto Rico and the District of Columbia since September 1, 1967 under subcontract from John V. Elliott Co. The present contract calls for continued personal services by Mr. Jahn.

Merchandise received by Buckingham is either shipped directly upon arrival at a United States pier, at which time duty and Internal Revenue taxes are paid by Buckingham, or placed in bonded warehouses in New York City. Shipments are made from the bonded warehouses either on a "duty-paid" basis, in which case Buckingham pays the tax upon withdrawal from bond, or, at the option of the distributor, on an "in-bond" basis, in which case the distributor pays the tax. Buckingham also ships directly to distributors from the United Kingdom on a direct import basis. The duty and tax on a case of *Cutty Sark* Scotch Whisky "fifths" is $27.14.

Buckingham advertises in newspapers as well as nationally-circulated magazines and also utilizes billboard and transit advertising facilities. In addition, Buckingham's distributors advertise for their own account.

Buckingham is licensed and subject to regulation by the Alcohol and Tobacco Tax Division of the United States Treasury Department. It also has appropriate licenses, where required, from the liquor authorities of the various states of the United States.

**Agreements with British Companies**

Buckingham has been the sole importer of *Cutty Sark* Scotch Whisky in the United States since 1933. Except for a short period from 1943 to 1948, during which Buckingham continued to act as such sole importer, Buckingham and Berry Bros. have been parties to a written contract, the term of which has been extended several times, whereby Buckingham is designated as the "sole selling agents" of Berry Bros. in the United States for the sale of *Cutty Sark* Scotch Whisky and its other products. The term of Buckingham's appointment now extends to January 1, 2000. In the contract, Buckingham agrees to use its best efforts to sell Berry Bros.' products in the United States to the exclusion of all other products so long as Berry Bros. uses its best efforts to supply its products to Buckingham. Buckingham may not sell any of Berry Bros.' products for exportation to any other country and is prohibited from dealing in substantially all other products in the wine and distilled spirits fields.

The contract provides that Buckingham is entitled to determine the selling price of *Cutty Sark* Scotch Whisky in the United States. In addition, the methods of distribution and advertising of Berry Bros.' products in the United States may be determined by Buckingham in its discretion, but Berry Bros. reserves the right to require the discontinuance of any methods of distribution or advertising which it considers harmful to its reputation. All products shipped by Berry Bros. to Buckingham are invoiced for payment in either British sterling or United States dollars, at the option of Berry Bros. or in accordance with the requirements of the British Treasury. Buckingham must make payment to Berry Bros. within fourteen days of shipment. Buckingham's interests in the agreement are not assignable by Buckingham without the express written consent of Berry Bros.

Together with Berry Bros. and Robertson, Buckingham is a party to a tripartite agreement which remains in effect until one of the parties thereto has given not less than ten years' written notice to the other parties terminating the agreement. No such notice has been given, and Buckingham does not know of any reason why any of the parties to this agreement would give notice of such termination. If any party is in breach of the agreement, the other parties are entitled to terminate the agreement forthwith, except that no such right of termination will arise if Robertson is prevented from producing the minimum quantities of blended Scotch whisky laid down by the agreement by reason of any cause beyond its reasonable control.

Under the tripartite agreement, Robertson is given the exclusive right to blend and supply Berry Bros. with such quantities of blended Scotch whisky as shall be required by Berry Bros. for sale

through Buckingham in the United States. The whiskies used by Robertson to produce the blended Scotch whisky sold to Berry Bros. must be obtained by Robertson from the combined resources of mature, single whiskies of the three parties to the agreement. To continue the present reputation and standing of *Cutty Sark* Scotch Whisky, Robertson agrees to use its best efforts to maintain as precisely as possible the existing characteristics of the blended Scotch whisky which it supplies to Berry Bros.

The agreement provides that Buckingham's requirements for *Cutty Sark* Scotch Whisky for distribution in the United States will be given priority over all other markets.

In the event that Berry Bros. at any time wishes to assign or otherwise dispose of its *Cutty Sark* Scotch Whisky trademarks, Buckingham and Robertson have the right to purchase such trademarks at two-thirds of their fair market value. A similar right is given to Buckingham and Robertson in the event of the liquidation of Berry Bros.

In the event that the contract between Berry Bros. and Buckingham designating Buckingham as sole selling agents in the United States for *Cutty Sark* Scotch Whisky is not in effect, the agreement provides that Buckingham shall, nevertheless, continue to act as sole selling agents in the United States upon such terms and conditions as may be agreed upon by Berry Bros. and Buckingham.

**Competition**

The alcoholic beverage industry is highly competitive. *Cutty Sark* Scotch Whisky competes with a number of other leading brands of Scotch whisky, and Scotch whisky is also in competition with all other alcoholic beverages.

**Properties**

Buckingham leases its executive offices which are located at 620 Fifth Avenue, New York City.

**Employees—Labor Relations**

Buckingham has approximately 35 employees. Its drivers and helpers in its shipping department are members of unions with which Buckingham has collective bargaining agreements negotiated on an industry-wide basis. Certain promotional personnel are also unionized. Labor relations have been satisfactory, and, prior to November 3, 1969, Buckingham had never had a strike or any other type of work stoppage. However, at the date of this Proxy Statement, 6 employees who are truck drivers and helpers in New York City and who are members of Local 816 of the International Brotherhood of Teamsters are on strike against Buckingham. Such strike, which commenced on November 3, 1969, is part of a general work stoppage by truck drivers and other personnel who deliver alcoholic beverages in New York City. At the date of this Proxy Statement, it is not possible to estimate the length of the strike or its effect on Buckingham's overall business.

Since 1954, Buckingham has had a trusteed Profit-Sharing Retirement Plan, of which Manufacturers Hanover Trust Company has been Trustee since 1964, applicable to all full time employees who have completed one calendar year of continuous service. The Plan requires a contribution by Buckingham to the Profit-Sharing Trust Fund for each year of an amount equal to the lesser of 15% of eligible employees' base compensation for such year or 33⅓% of the net income of Buckingham before taxes in excess of $850,000 (exclusive of capital gains and losses and before calculation of the contribution to the Fund) and a lesser percentage of such income not in excess of such amount. Contributions are allocated among participants in the proportion that the base compensation of each participant for the year bears to the aggregate of such compensation of all participants for such year. Termination of an employee's service, whether voluntary or involuntary, during the first five years of continuous service results in a partial forfeiture. An employee's interest in the fund becomes vested after the fifth year. Distributions are made at the time of retirement, disability or death either in a lump sum or in installments. The Plan may be terminated at any time by Buckingham but Buckingham has no present intention of terminating the Plan. The contribution by Buckingham for the year 1968 amounted to $46,577.

**Litigation**

On May 9, 1969, an action was instituted by Max Eisenberg suing on behalf of himself and all other stockholders of Buckingham similarly situated against Buckingham, its officers and directors, Schenley and Glen Alden in the Supreme Court of the State of New York. The complaint sought to enjoin the defendants from permitting a vote upon the adoption of the reorganization plan under which Buckingham became a wholly-owned subsidiary of BHM and from carrying such plan into effect. On May 14, 1969 a motion for a preliminary injunction in such action was denied by the Court, and on May 29, 1969 Buckingham filed its answer in such action denying the material allegations of the complaint and alleging two affirmative defenses.

On June 10, 1969 a second action was instituted in the Supreme Court of the State of New York by Mr. Eisenberg on behalf of himself and all other stockholders of Buckingham similarly situated. This action names as defendants, BHM, its officers and directors, and Schenley. The complaint alleges that the consummation of the reorganization plan wrongfully converted and misappropriated plaintiffs' stock in Buckingham and seeks to enjoin BHM from selling any stock of Buckingham. On June 25, 1969 BHM filed its answer in such action denying the material allegations of the complaint and alleging three affirmative defenses.

On July 2, 1969 Schenley was served with the summons and complaint in both actions, and on July 21, 1969 Schenley filed answers in both actions denying the material allegations of the complaints and alleging affirmative defenses.

On June 30, 1969 plaintiff moved in both actions for summary judgment declaring the reorganization plan illegal and void and directing BHM to return to the stockholders of Buckingham the stock owned by them on May 15, 1969 and for an order enjoining Schenley from acquiring any additional shares of BHM. Such motions were denied by the Court on August 4, 1969. Thereafter plaintiff moved for reargument of his motions and requested an injunction against the merger of Schenley and BHM pending the Court's decision. Defendants then cross-moved for summary judgment dismissing the complaints. Defendant's cross-motions for summary judgment were granted on September 9, 1969, but the time to file a notice of appeal has not yet expired. Plaintiff has, however, filed a notice of appeal from the denial of his motions.

See "History and Business of Schenley—Litigation" for a description of additional litigation involving Buckingham and Schenley.

**Certain Transactions**

In August 1964 Schenley purchased from James J. Culhane, Harold Lonergran, Charles Culkin and the Estate of James F. Schlesinger, the then controlling stockholders of Buckingham, all the shares of capital stock of Buckingham then owned by them (representing a 52.66% interest) for approximately $32,900,000 in cash. Such shares were purchased for investment, and Buckingham continued, after the purchase, to operate as an independent, separate corporation with its own management and field sales and distribution staff.

As has been previously noted, Buckingham sells to a number of wholesale liquor distributors owned by Schenley. During the year ended August 31, 1968 such sales amounted to approximately $5,985,000 (or approximately $13,165,000 on a duty-paid basis).

In June 1969 BHM purchased an executive aircraft for $750,000. BHM has leased this aircraft to Glen Alden under a five year lease at an approximate rental of $156,000 per year. Under the lease Glen Alden bears all operating and maintenance expenses of the plane, and BHM may, at its request, use the plane at Glen Alden's operating cost.

## MANAGEMENT OF THE SURVIVING CORPORATION

Pursuant to the Agreements of Merger all of the present directors of Schenley will continue in office as directors of the Surviving Corporation. The term of all of the directors of the Surviving Corporation will expire at the next annual meeting of stockholders to be held in May 1970. The present officers of Schenley will also continue in their present capacities with the Surviving Corporation.

Information with respect to the principal occupation of each of the persons who will be directors of the Surviving Corporation, and his beneficial ownership of shares of Schenley as of July 24, 1969 is set forth in the following table. None of the persons listed below have reported ownership of any shares of BHM Common Stock.

| Name | Principal Occupation | Director Since | Shares of Schenley: Common Stock | Shares of Schenley: Preference Stock |
|---|---|---|---|---|
| Isidore A. Becker(1) | Chairman of the Board of Schenley; Vice Chairman of the Board of Glen Alden, a diversified corporation engaged in manufacturing, retailing and the ownership and operation of motion picture theatres; Vice Chairman of the Board, Chairman of the Finance Committee, and Financial Vice President of Rapid, a diversified manufacturing and retailing corporation; Vice Chairman of the Board and Treasurer of McCrory, a retailing chain; and an executive of McCrory and Rapid for more than the past five (5) years. | 1968 | — | — |
| David A. Chernow(1) | Executive Vice President—Finance and Administration and Comptroller of Schenley; and an executive of Schenley for more than the past five (5) years. | 2/27/69 | 1,500 | — |
| Howard S. Feldman | Executive Vice President—Sales and Marketing of Schenley; and an executive of Schenley for more than the past five (5) years. | 2/27/69 | 1,000 | — |
| Bernard Goldberg(1) | President of Schenley; and an executive of Schenley for more than the past five (5) years. | 1966 | 9,002 | — |
| Walter O. Heinze(1) | President of International Latex Corporation, a subsidiary of Glen Alden, for the past five (5) years. | 1968 | — | — |
| Milo B. Hopkins | Chairman, Finance Committee of James Talcott, Inc., industrial finance, since 1966; prior thereto Executive Vice President of Manufacturers Hanover Trust Company for more than five (5) years. | 1961 | 100 | — |

| Name | Principal Occupation | Director Since | Shares of Schenley Common Stock | Shares of Schenley Preference Stock |
|---|---|---|---|---|
| Paul A. Johnston(1) | President of Glen Alden since 1965; Vice President of Martin-Marietta Corporation and President of its Cement and Lime Division from 1963 to 1965. | 1968 | — | — |
| Russell G. Smith | Retired for more than five (5) years; prior thereto Executive Vice President, Bank of America National Trust and Savings Association. | 1959 | — | 16 |

(1) The following directors have reported the beneficial ownership of the following equity securities of Glen Alden: Isidore A. Becker, 17,500 shares of Common Stock; Bernard Goldberg, 15,000 shares of Common Stock; and Paul A. Johnston, 19,600 shares of Common Stock. In addition, Mr. Goldberg and Mr. Johnston hold options to purchase 15,000 and 35,000 shares of Glen Alden Common Stock, respectively, under the 1965 Qualified Stock Option Plan of Glen Alden. Glen Alden has granted to Mr. Heinze certain rights to purchase, on or before November 30, 1973, 5,500 shares of Class B Senior Cumulative Convertible ($3) Preferred Stock of Glen Alden, and he holds a qualified stock option to purchase 11,000 shares of such stock. Isidore A. Becker has reported the beneficial ownership of 63,362 shares of Rapid Common Stock. In addition, Mr. Becker is a director of the McCrory Foundation, Inc., which owns 6,230 shares of Rapid Common Stock; he is a director of the Rapid-American Foundation, Inc., which owns 6,000 shares of Rapid Common Stock; he is a trustee of the RKO Foundation which owns $10,000 principal amount of Rapid 5¾% Subordinated Convertible Debentures; and he is a trustee of a foundation which owns 1,000 shares of Rapid Common Stock. Mr. Goldberg has reported that he owns 4,500 shares of Rapid Common Stock. Mr. Chernow has reported that he owns 500 shares of Rapid Common Stock and warrants to purchase 1,000 shares of Rapid Common Stock. The foregoing information is at July 24, 1969.

## SCHENLEY REMUNERATION

The information in this section concerns those persons who have served as directors and officers of Schenley at any time since September 1, 1967, the beginning of Schenley's last full fiscal year. However, information is not included for any portion of such periods during which such persons did not hold such positions with Schenley. Of the persons listed below in the remuneration table or otherwise mentioned in this section, only Messrs. Chernow, Feldman, Goldberg and Hopkins are presently serving as directors.

The following tabulation sets forth, on an accrual basis, all direct remuneration paid by Schenley and its subsidiaries during its last full fiscal year ended August 31, 1968, to the following persons for services in all capacities: (i) each director whose aggregate direct remuneration exceeded $30,000, including each of the three highest paid officers; and (ii) all directors and officers of Schenley as a group. The tabulation also states the amount of the annual benefits estimated to be payable to each such director or officer in the event of retirement at normal retirement date, pursuant to any pension or retirement plan of Schenley and its subsidiaries. For the purposes of this Proxy Statement, the term "officers" does not include the assistant officers.

| Name of Individual or Identity of Group | Capacities in Which Remuneration Was Received* | Aggregate Remuneration (See Note A) Year ended August 31 1968 | Estimated Annual Benefits After Normal Retirement (See Note B) Year ended August 31 1968 |
|---|---|---|---|
| Charles B. Buscher | Vice President | $ 48,333 | $ 9,816 |
| David A. Chernow | Vice President | 75,000 | 30,269 |
| Edgar R. Deutsche | Vice President | 50,000 | 14,392 |
| William E. Devereaux | Vice President | 75,000 | 26,859 |
| Howard S. Feldman | Vice President | 65,000 | 24,723 |
| Bernard Goldberg | Senior Vice President until October 3, 1968; President thereafter | 75,000 | 52,879 |
| Theodore Gommi | Vice President | 59,167 | 10,854 |
| Milo B. Hopkins | Consultant to Schenley | 38,000 | — |
| George D. Kuhn | President of Canadian Schenley Distilleries Ltd., a subsidiary | 46,250 | 16,147 |
| John Mackie | President; Chairman of Seager Evans & Co. Ltd., a subsidiary; services to other subsidiaries | 100,000 | 11,510 |
| Louis B. Nichols | Executive Vice President | 100,000 | 11,029 |
| Lewis S. Rosenstiel | Chairman of the Board until October 1, 1968 | 250,000 | 14,632 |
| Theo. C. Wiehe | Vice President; consultant to Schenley | 30,000 | 6,349 |
| All Directors and Officers as a group (21 persons) | | $1,179,000 | |

* The offices are those held during the periods for which remuneration is shown. Messrs. Gommi, Mackie, Nichols, Rosenstiel, and Wiehe have retired. Messrs. Buscher, Deutsche, Devereaux, and Kuhn are no longer directors of Schenley but continue in its employ. Mr. Deutsche remains an officer of Schenley.

A—Remuneration shown above does not include deferred compensation for the following persons provided during the fiscal year ended August 31, 1968 under employment agreements at the respective annual rates shown: Charles B. Buscher, $5,000; Howard S. Feldman, $10,000; Bernard Goldberg, John Mackie and Louis B. Nichols, $25,000. Such deferred compensation is payable to each of such executives in installments following termination of employment. In the event of death of the executive, payment as to Messrs. Feldman, Goldberg, Mackie or Nichols is to be made to his estate and as to Mr. Buscher to his wife if living or as designated in his will and otherwise to his estate. Remuneration paid to Messrs. Kuhn and Mackie by non-U. S. subsidiaries was paid in the currency of the country of each such subsidiary. Mr. Goldberg is indebted to Schenley in the sum of $69,950, evidenced by a note payable February 28, 1974, which bears no interest, such indebtedness having been contracted prior to his election as an officer or director of Schenley to enable him to purchase accommodations for use as a residence and for business purposes. Reference is made to the text below for other provisions under employment agreements with the foregoing and other directors and officers of Schenley. The remuneration shown above also does not include $199,300 paid to Mr. Rosenstiel in 1968 for prior years' vacation not taken by him, $100,000 of deferred compensation accrued during the fiscal year ended August 31, 1968 under his employment agreement, or the amount paid to Mr. Rosenstiel in October 1968 upon termination of his employment agreement with Schenley as described below.

B—The amounts shown are the estimated annual benefits after normal retirement under the Employees' Retirement and Benefit plans of Schenley and subsidiaries (hereinafter in this note referred to as "the Plan") as computed by actuaries in connection with the Plan. The computations assume continuance of the present Plan, employment until age 65, and no change in present base rate of annual salary. Employees' pensions are provided for by trusts in which Schenley and participating subsidiaries from time to time make deposits computed on a group basis and not on an individual employee basis, and no specific amount has been paid to the trustees or set aside by Schenley or participating subsidiaries for the account of any individual director, officer or other employee. The amounts stated for Messrs. Kuhn and Mackie include the equivalent in U. S. dollars of amounts payable under plans of non-U. S. subsidiaries in the currency of the country of each such subsidiary. The amount set forth with respect to Mr. Wiehe, who retired in 1959, is the benefit which he received under the Plan during the fiscal year ended August 31, 1968. The amounts set forth with respect to Messrs. Gommi, Nichols and Rosenstiel are the amounts each is currently receiving under the Plan since their retirement from Schenley after the close of fiscal 1968. Mr. Mackie has also retired, but has deferred payment of his benefit to age 65.

The employment agreement between Schenley and Mr. Goldberg which terminates on March 1, 1974 was amended on March 18, 1969 to provide effective as of January 1, 1969 for current salary at the rate of $135,000 per annum and for deferred compensation at the rate of $15,000 per annum plus the higher of $50,000 or an amount equal to 2/10ths of 1% of consolidated net income before taxes, as defined in the agreement, payable over a ten-year period in equal monthly installments after termination of employment to him or to his estate. In the event of Mr. Goldberg's death during the term of the agreement a payment of $200,000 is to be made to his wife, or if she predeceases him to his estate. In the event Mr. Goldberg becomes disabled, as defined in the agreement, he is to receive compensation for advisory and consultative services during the period of his disability at the rate of $100,000 per year. In the event of the termination of Mr. Goldberg's employment (other than by death, by voluntary termination on his part prior to September 30, 1973 or other than by termination for good cause prior to the end of said term), Mr. Goldberg is to receive annual payments during his lifetime, ranging from $14,000 to $31,666 depending on the date of termination. Upon Mr. Goldberg's death, either while in the employ of Schenley or after he becomes entitled to the above payments on termination, reduced payments based upon the aforesaid annual payments are to be paid to his wife for life. The foregoing payments upon death and termination are subject to reduction by the value of any retirement benefit payable under the Schenley Employees' Retirement and Benefit Plan. In addition, Schenley has agreed to maintain at its expense, during the term of the agreement, term life insurance in the amount of $50,000 on Mr. Goldberg's life for the benefit of such beneficiary or beneficiaries as he may name.

The employment agreement between Schenley and Mr. Chernow which terminates December 31, 1974 was amended as of March 1, 1969 to increase his annual salary rate to $100,000 per year. In the event Mr. Chernow becomes disabled, as defined in the agreement, he is to receive compensation for advisory and consultative services during the period of his disability at the rate of $50,000 per year. Under the amended agreement, upon termination of employment (other than by death, termination for cause, or voluntary termination on his part prior to the end of the term of the agreement), Schenley is to pay to Mr. Chernow annually during his life in equal monthly installments a sum equal to $1,500 for each year of continuous service from September 1, 1966 to February 28, 1969 and a sum equal to $2,000 per year for each year of continuous service from and after March 1, 1969. Upon Mr. Chernow's death, either while in the employ of Schenley or after he becomes entitled to the above payments of termination, reduced payments based upon the aforesaid payments are to be paid to his wife for life. The foregoing payments are subject to reduction by the value of any retirement benefit payable under the Schenley Employees' Retirement and Benefit Plan.

On March 1, 1969 the employment agreement between Schenley and Mr. Feldman was amended to reduce the term of employment thereunder from a term ending January 31, 1978 to one ending February 28, 1974, and to increase his annual rate of salary to $85,000 of current salary and $40,000 per year as deferred salary to be paid in equal monthly installments after termination of employment to Mr. Feldman or to his estate. In the event Mr. Feldman becomes disabled, as defined in the agreement, he is to receive compensation for advisory and consultative services during the period of his disability at the rate of $62,500 per year. Upon termination of employment (other than by death, termination for cause, or voluntary termination on his part prior to the end of the term of the agreement), Schenley is to pay to Mr. Feldman annually during his life in equal monthly installments a sum equal to $1,250 for each year of continuous service from November 1, 1966 to July 31, 1967, a sum equal to $1,500 for each year of continuous service from August 1, 1967 to February 28, 1969, and a sum equal to $2,500 for each year of continuous service from and after March 1, 1969. Upon Mr. Feldman's death, either while in the employ of Schenley or after he becomes entitled to the above payments on termination, reduced payments based upon the aforesaid payments are to be paid to his wife for life. Also in the event of the death of Mr. Feldman while employed under the agreement, Schenley is to pay to his widow or estate $125,000.

Employment agreements with Messrs. Buscher and Devereaux provide that upon termination of employment (other than by death or in certain other events), Schenley shall pay annually throughout

the executive's life a sum equal to $1,000 for each year of continuous service from and after January 1, 1967 with respect to Mr. Buscher and a sum equal to $1,500 for each year of continuous service from and after September 1, 1966 with respect to Mr. Devereaux. The foregoing employment agreements provide that in the event of the death of the executive, reduced payments based upon the aforesaid annual payments with respect to each executive are to be made to the wife of the decedent for life. The foregoing payments with respect to Mr. Buscher are subject to reduction by the value of any retirement benefit under the Schenley Employees' Retirement and Benefit Plan.

The agreements with the executives named in the preceding paragraphs provide that as a condition to the receipt of the annual payments upon termination of employment the executive shall render consulting services to Schenley and shall not engage in any competitive business.

During the past fiscal year the employment agreement between Canadian Schenley Distilleries Ltd., a Canadian subsidiary, and George D. Kuhn, then its President and now its Chairman of the Board, was amended. As so amended, the agreement with Mr. Kuhn provides for his employment for the period September 1, 1966 through August 31, 1976, at an annual rate of compensation of $50,000 to August 31, 1968 and of $60,000 thereafter (Canadian currency). Upon termination of employment (other than by death) there shall be paid to Mr. Kuhn annually throughout his life a sum equal to $2,500 for each year of continuous service from September 1, 1966 to August 31, 1971, and $1,000 for each year of continuous service from September 1, 1971 to August 31, 1976. The foregoing payments are subject to reduction by the value of any retirement benefit with respect to him under the Canadian Schenley Employees' Retirement and Benefit Plan.

On June 4, 1969 Schenley amended its retainer agreement with Milo B. Hopkins, a director. Under the amended agreement, Mr. Hopkins is to render advisory and consulting services to Schenley until February 28, 1974 for an annual compensation of $30,000 plus $20,000 of deferred compensation to be paid, without interest, in equal monthly installments of $2,000 each commencing March 1, 1974 until the aggregate amount is paid in full. In the event of Mr. Hopkins' death prior to the expiration of the period over which such payments are made, the payments are to be continued to his wife or in the event of her death in equal shares to his children.

Schenley has a retainer agreement with Mr. Wiehe under which he is to render advisory and consulting services to Schenley for life for an annual compensation of $30,000.

On October 10, 1968 the employment agreement between Schenley and Mr. Rosenstiel was terminated by mutual agreement. In connection with this termination Schenley paid Mr. Rosenstiel $354,247, in full payment of all monies (including deferred compensation) due to Mr. Rosenstiel under the employment agreement and as termination and severance compensation to him. Prior to its termination, the employment agreement between Schenley and Mr. Rosenstiel, as amended, provided that he was to render full-time services to Schenley until September 12, 1969 (unless Mr. Rosenstiel sooner terminated such services), during which time he would earn salary at the annual rate of $250,000 plus deferred compensation at the annual rate of $100,000, which deferred compensation would be payable at the annual rate of $25,000 beginning in the year following the year in which the agreement was terminated. In the case of death, the deferred compensation was to be paid to a named beneficiary or beneficiaries. Mr. Rosenstiel's employment agreement further provided that upon the termination of his full-time services, he was to commence the performance of advisory and consulting services to Schenley, such services to continue for the period of his life or until earlier termination of such services by him, with compensation at the annual rate of $175,000.

In addition, agreements have been executed since the end of Schenley's last full fiscal year with respect to the separation from employment of Messrs. Gommi, Mackie, and Nichols. The agreement with Mr. Nichols provides for an aggregate payment of $187.500 over a period not to exceed ten years from the date of termination of his employment. The agreement with Mr. Gommi provides for payments of $120,000 in two installments of which $80,000 was paid in November 1968 and the balance in January 1969. Mr. Gommi's agreement, in addition, provides that Schenley is to maintain term insurance (Mr. Gommi contributing $540 per year toward the premium) on his life in the amount of $150,000 until October 31, 1970 for the benefit of any beneficiary named by Mr. Gommi. The agreement with

Mr. Nichols also provides for supplementary annuity benefits of $11,137 payable to him for his life and after his death in the amount of $11,083 payable to his wife for her life. The agreement with Mr. Mackie provides that he is to render advisory and consulting services to Schenley for an annual compensation of $30,000 until September 14, 1976. Mr. Mackie's agreement also provides for a lump sum payment of $30,000 to his wife or his estate in the event of his death prior to September 14, 1976.

Schenley has a Key Group Extra Compensation Plan and an Employees' Share Purchase Plan in which employees, including directors and officers, participated in prior years. No awards have been made under the Key Group Extra Compensation Plan since 1952. Credits accumulated under the Plan in prior years by the foregoing directors and officers as a group will provide aggregate annual benefits, contingently payable over a period of ten years after termination of employment, of $21,958, including annual amounts of $4,158 and $7,992 respectively for Messrs. Edgar R. Deutsche and Theodore Gommi. In view of the termination of employment of Mr. Gommi, payment of the annual amount payable to him commenced in January 1969.

The Board of Directors determined in fiscal 1966 that no further grants were to be made under the Employees' Share Purchase Plan. Information with respect to options previously granted which have been exercised under the Plan since the beginning of Schenley's last full fiscal year by the persons and the group listed in the above remuneration table and with respect to unexercised options held as at June 30, 1969, is set forth in tabular form below.

| | Options Exercised Since August 31, 1967 | | | Options Outstanding and Unexercised as at June 30, 1969 | |
|---|---|---|---|---|---|
| Name of Individual or Identity of Group | Number of Shares of Common Stock Purchased | Aggregate Option Price (A) | Aggregate Market Value of Shares on Dates Options Exercised (B) | Number of Shares | Average Per Share Option Price |
| David A. Chernow | 3,000 | $ 37,526 | $113,500 | — | — |
| Edgar R. Deutsche | 3,300 | 42,192 | 112,097 | — | — |
| Howard S. Feldman | 1,500 | 23,125 | 53,181 | 1,500 | $15.4167 |
| Bernard Goldberg | 3,300 | 42,384 | 135,312 | — | — |
| George D. Kuhn | 1,500 | 20,063 | 55,312 | — | — |
| All Directors and Officers as a group (6 persons) | 12,900 | $169,613 | $480,152 | 1,500 | $15.4167 |

A — The option prices are the prices specified in the options at the respective dates of grant, adjusted, where appropriate, to reflect stock dividends and the 3 for 2 stock split in March 1968.

B — The market value is based upon the mean between the high and low prices of Schenley's Common Stock on the New York Stock Exchange on the dates of exercise of options, or where there was no trading in such stock on a date of exercise, on the next preceding date on which there was trading in such stock.

Schenley's Key Executive Deferred Compensation Incentive Plan, which was approved by the stockholders at their 1966 Annual Meeting, provided for the award, by a Committee composed of three directors who may not be participants, of deferred compensation "units" to participants in such number as shall from time to time be determined by the Committee, each unit being represented by one share of Schenley Common Stock.

Effective October 31, 1968, the Plan was terminated, and there was credited as of that date to the account of each Participant the then value of his interest in the Plan. Awards with respect to fiscal 1968 were made by the Committee under the Plan in dollar amounts rather than in units. From and after November 1, 1968 each Participant will be credited with his share of the earnings of the revocable trust established under the Plan, and Schenley has guaranteed that such earnings will be not less than the equivalent of simple interest at the rate of 5% per year on the value of each Participant's interest in the Plan as at October 31, 1968 and on the amount awarded for fiscal 1968. Payments under the Plan are to be made to a Participant in installments over ten years after cessation of employment with alternative provisions in the event employment ceases before a Participant reaches age 65 or in the event his employment is terminated due to death or disability.

The foregoing awards under the Key Executive Deferred Compensation Incentive Plan to directors and officers named in the remuneration table, and to all directors and officers as a group, are as follows:

| Name of Individual or Identity of Group | Fiscal 1968 Award | Total Interest as at October 31, 1968 |
|---|---|---|
| Charles B. Buscher | $ 15,000 | $ 45,666 |
| David A. Chernow | 35,000 | 150,345 |
| Edgar R. Deutsche | 15,000 | 76,517 |
| William E. Devereaux | 20,000 | 96,897 |
| Howard S. Feldman | 25,000 | 86,517 |
| Bernard Goldberg | 50,000 | 173,035 |
| Theodore Gommi | 10,000 | 72,057 |
| George D. Kuhn | 15,000 | 76,517 |
| John Mackie | 50,000 | 242,242 |
| Louis B. Nichols | 20,000 | 143,035 |
| [1] Lewis S. Rosenstiel | 50,000 | 243,924 |
| Directors and Officers as a group (13 persons) | 335,000 | 1,575,172 |

[1] Mr. Rosenstiel retired prior to October 31, 1968, and the amounts shown with respect to him are the amounts determined as at his date of retirement.

During the fiscal year ended August 31, 1968, Schenley paid a total of $150,000 to J. Lincoln Morris, then a director, and the firm of Seligson & Morris, of which he is a partner, for advisory, consulting and legal services to Schenley and certain subsidiaries. In addition, Buckingham paid the firm $30,000 for legal services to said company. Mr. Morris' tenure as a director of Schenley ended on October 1, 1968, and he is no longer serving Schenley or Buckingham in any capacity.

During the fiscal year ended August 31, 1968, Schenley paid a total of $220,000 to the firm of Olvany, Eisner & Donnelly for legal services, to which firm Sylvan Oestreicher, then a director, is a tax consultant.

## BHM REMUNERATION

The following table sets forth, on an accrual basis, all direct remuneration paid by Buckingham during the year 1968 to each director of Buckingham, and each officer of Buckingham, whose aggregate direct remuneration exceeded $30,000, and to all directors and officers of Buckingham as a group. The tabulation also shows the contribution to Buckingham's Profit-Sharing Retirement Trust in respect of each such director or officer. Each of the named persons listed holds the same office in BHM.

| Name | Capacities in Which Remuneration Was Received | All Direct Remuneration (1) | Contribution to Profit-Sharing Retirement Trust (2) |
|---|---|---|---|
| Charles Bechert | President | $ 45,000 | $ 6,750 |
| William F. Gallagan, Jr. | Executive Vice President | 38,000 | 5,700 |
| All Directors and Officers as a Group (8 persons) (3) | | 142,709 | 15,750 |

(1) Remuneration shown above does not include deferred compensation under employment agreements with Messrs. Bechert and Gallagan, described below.

(2) Reference is made to "History and Business of BHM—Employees" for information with respect to the trust. Assuming that the employment of each of the named persons and all directors and officers as a group terminated on January 1, 1969 the aggregate amount of the credit distributable to such persons would have been as follows: Charles Bechert, $76,412; William F. Gallagan, Jr., $41,371; and all directors and officers as a group, $131,633.

(3) During 1968 Buckingham employed John J. Yorwerth as its Chairman of the Board and Chief Executive Officer at a salary of $75,000 per annum.

During the year 1967, Buckingham entered into employment agreements with Charles Bechert and William F. Gallagan, Jr. The agreement with Mr. Bechert provides for his employment for five years commencing August 15, 1967 at an annual remuneration of $45,000 per year for the first and second year of the agreement, $47,500 per year for the third and fourth year, and $50,000 for the fifth year, and for deferred compensation at the rate of $10,000 per year for each year of his full time employment under the agreement, payable to Mr. Bechert in installments following termination of his full time employment with Buckingham. The agreement with Mr. Gallagan provides for his employment for five years commencing August 15, 1967 at an annual remuneration of $38,000 per year for the first and second year of the agreement, $40,000 per year for the third and fourth year, and $42,000 for the fifth year, and for deferred compensation at the rate of $4,200 per year for each year of his full time employment under the agreement, payable to Mr. Gallagan within six months after his full time employment under the agreement terminates. In the event of the death of Mr. Bechert or Mr. Gallagan, any earned but unpaid deferred compensation is to be paid in a lump sum to his estate. An employment agreement with one other officer of Buckingham was entered into during the year 1967, providing for his employment for three years commencing August 15, 1967 at an annual remuneration of less than $30,000 per year.

## DESCRIPTION OF CAPITAL STOCK OF THE SURVIVING CORPORATION

The authorized capital stock of Schenley as the Surviving Corporation will be 20,000,000 shares of Common Stock and 4,000,000 shares of Cumulative Convertible Preference Stock and, if the $1.40 Preferred Stock Agreement of Merger is consummated, 2,745,550 shares of $1.40 Cumulative Convertible Preferred Stock.

**Dividends:**

Before any dividends may be declared or paid upon, or any other distribution ordered or made in respect of, Schenley Common Stock, and before any shares of Common Stock may be purchased, redeemed, or otherwise acquired by Schenley, full cumulative dividends on the outstanding Schenley Preference Stock and the outstanding Schenley $1.40 Preferred Stock at the prescribed rates must have been paid or declared and set apart for payment. Similarly, before any dividends may be declared or paid upon, or any other distribution ordered or made in respect of, Schenley $1.40 Preferred Stock and before any shares of Schenley $1.40 Preferred Stock may be purchased, redeemed or otherwise acquired by Schenley, full cumulative dividends on the outstanding Schenley Preference Stock at the prescribed rate must have been paid or declared and set apart for payment. Holders of the Schenley Preference Stock will be entitled to receive when, as and if declared by the Board of Directors, cumulative cash dividends at the annual rate of $.50 per share, payable at such times, not less often than semi-annually, as determined from time to time by the Board of Directors. Holders of Schenley $1.40 Preferred Stock will be entitled to receive when, as and if declared by the Board of Directors, cumulative cash dividends at the annual rate of $1.40 per share payable on the 10th day of February, May, August and November in each year; provided, however, that payment of the first dividend may be postponed for a period not to exceed forty-five (45) days in the discretion of the Board of Directors as expressed by a resolution of such Board. Any such postponement will be made only to facilitate the creation of an orderly public market for the Schenley $1.40 Preferred Stock.

Agreements with respect to Schenley's long-term debt contain certain restrictions on dividends (see Note 5 to Consolidated Financial Statements of Schenley herein).

Subject to the foregoing, the Common Stock is entitled to such dividends as are from time to time declared by the Board of Directors.

**Voting Rights:**

Holders of Schenley Common Stock will be entitled to one vote for each share of such stock and holders of Schenley $1.40 Preferred Stock will be entitled to one-tenth of a vote for each share of such stock. Except as otherwise provided by the laws of Delaware, such holders will exclusively possess voting

power for the election of the directors and other purposes. However, if the equivalent of six or more quarterly dividends are in arrears on the Schenley Preference Stock, then during the period of any such arrearage, the holders of Schenley Preference Stock will be entitled, voting as a class with one vote for each share held, to elect two directors. Similarly, if the equivalent of six or more quarterly dividends are in arrears on the Schenley $1.40 Preferred Stock, during the period of any such arrearage, the holders of Schenley $1.40 Preferred Stock will be entitled, voting as a class with one vote for each share held, to elect two directors and any such voting right will be in substitution for, and not in addition to, the right to one-tenth of a vote per share on the election of directors. Schenley may not, without the consent of the holders of two-thirds of the outstanding shares of Schenley Preference Stock, alter or change the designations or the voting powers, preferences or rights, or the qualifications, limitations or restrictions of the Schenley Preference Stock in any material respect prejudicial to the holders thereof, or create any new class of stock or security convertible into such stock having preference over the Schenley Preference Stock as to dividends or assets. Schenley may not, without the consent of the holders of two-thirds of the outstanding shares of Schenley $1.40 Preferred Stock, amend its Certificate of Incorporation to authorize any additional shares of Schenley $1.40 Preferred Stock or of any other class of stock ranking on a parity with or prior to the Schenley $1.40 Preferred Stock as to dividends or rights upon liquidation or to alter or change the powers, preferences, or special rights of the Schenley $1.40 Preferred Stock so as to affect adversely the Schenley $1.40 Preferred Stock.

**Non-Cumulative Voting:**

No class of Schenley stock will have cumulative voting rights This means that the holders possessing more than 50% of the voting power can elect all of the directors, or class of directors in certain events, if they choose to do so, and, in such event, the holders of the remaining shares voting on such election of directors will not be able to elect any person to the Board of Directors.

**Conversion Rights:**

The holders of shares of Schenley Preference Stock will have the right to convert such shares into shares of Schenley Common Stock at any time on or before the close of business on December 31, 1969 (or, as to any share called for redemption prior thereto, up to the close of business on the third business day preceding the date fixed for redemption), at the rate of $\frac{3}{16}$ths of a share of Schenley Common Stock for each share of Schenley Preference Stock. To safeguard against dilution, the conversion price is subject to adjustment in certain cases. If the proposed merger is consummated prior to December 31, 1969, there may be an anti-dilution adjustment in the conversion rate. See "Proposed Merger—Terms of the Merger" above. No adjustments in respect of dividends will be made upon conversion. No fractional shares of Common Stock will be issued on conversion, but non-dividend-bearing and non-voting scrip certificates (exchangeable, pursuant to the provisions thereof, when combined with other such scrip certificates for a full share) may be issued or, at the option of Schenley, a cash adjustment based on market price may be made.

The holders of shares of Schenley $1.40 Preferred Stock will have the right to convert such shares into shares of Schenley Common Stock at any time after the issuance of such shares (or, as to any share called for redemption, up to the close of business on the last business day falling not less than three days prior to the date fixed for redemption) at the rate of $\frac{9}{10}$ths of a share of Schenley Common Stock for each share of Schenley $1.40 Preferred Stock. To safeguard against dilution, the conversion rate is subject to adjustment in certain cases. No adjustments in respect of dividends will be made upon conversion. Fractional shares of Common Stock will not be issued upon conversion but a cash adjustment in respect of fractional interests will be made based on the market price of the Common Stock.

**Rights on Liquidation and Certain Reorganizations:**

In the event of liquidation, dissolution or winding up of Schenley, the holders of Schenley Preference Stock will be entitled to receive out of the assets available for distribution to its stockholders an amount equal to $10 per share together with an amount equal to unpaid cumulative dividends thereon to the date

of final distribution, if any, before any distribution may be made to the holders of Schenley $1.40 Preferred Stock or Common Stock. In the event of liquidation, dissolution or winding up of Schenley, the holders of Schenley $1.40 Preferred Stock will be entitled to receive out of the assets available for distribution to its stockholders an amount equal to $24 per share together with an amount equal to unpaid cumulative dividends thereon to the date of final distribution, if any, after the above distribution to the holders of Schenley Preference Stock, but before any distribution may be made to the holders of Common Stock. Holders of Common Stock will be entitled to the then remaining assets in proportion to their share holdings. In the event the net assets of the Corporation shall be insufficient to pay to each holder of Schenley Preference Stock his liquidation preference of $10 per share, then each such holder shall share ratably in any distribution of assets to the extent available, and in the event the net assets of the Corporation remaining after payment of the liquidation preference to holders of Schenley Preference Stock shall be insufficient to pay to each holder of Schenley $1.40 Preferred Stock his liquidation preference of $24 per share, then each such holder of Schenley $1.40 Preferred Stock shall share ratably in any distribution of assets to the extent available.

If on or after July 1, 1970 (or six months after the date of issuance of the $1.40 Preferred Stock, whichever is later) Schenley shall merge or consolidate with or into any other corporation in a transaction in which Schenley is not the continuing corporation, or if on or after said date Schenley shall sell all or substantially all of its assets in exchange for securities of another corporation and then liquidate, and if in such transaction the $1.40 Preferred Stock shall be converted into or exchanged for securities of the same class as the Common Stock is converted into or exchanged for in such transaction (disregarding any Common Stock which is cancelled and not converted into or exchanged for any other securities), then each share of $1.40 Preferred Stock shall be converted into or exchanged for the same number or amount of such securities as it would have been converted into or exchanged for had such share of $1.40 Preferred Stock been converted into Common Stock at the then applicable conversion rate of the $1.40 Preferred Stock immediately prior to such transaction.

Prior to March 1, 1971 (or fourteen months after the date of issuance of the $1.40 Preferred Stock, whichever is later) Schenley may not merge or consolidate with or into any other corporation in a transaction in which Schenley is not the continuing corporation or sell all or substantially all its assets in exchange for securities of another corporation and then liquidate, unless in any such transaction the $1.40 Preferred Stock shall be converted into or exchanged solely for voting stock of a party to such transaction.

**Redemption:**

Schenley Preference Stock may be redeemed in whole or in part by Schenley at any time or from time to time, on not less than 30 days' notice, at a redemption price of $10 per share together with an amount equal to unpaid cumulative dividends to the date of redemption, if any. Schenley $1.40 Preferred Stock may be redeemed, in whole or in part, at any time or from time to time, from and after March 1, 1971 (or fourteen months after the date of issuance of the $1.40 Preferred Stock, whichever is later) on not less than 45 days' notice, at a redemption price of $24 per share together with an amount equal to unpaid cumulative dividends to the date of redemption, if any. The Common Stock has no redemption provisions.

**General:**

No class of Schenley capital stock will be liable for further calls or subject to assessment. Following the effectiveness of the proposed merger, holders of Schenley Common Stock will not have preemptive rights. The holders of Schenley Preference Stock and Schenley $1.40 Preferred Stock will also have no preemptive rights.

## DESCRIPTION OF CAPITAL STOCK OF BHM

The authorized capital stock of BHM consists of 9,000,000 shares of Common Stock, all the outstanding shares of which are fully paid and nonassessable. Holders of BHM Common Stock are entitled to receive dividends out of funds legally available therefor, when, as and if declared by the Board of Directors of BHM; have full and exclusive voting rights; are entitled to share equally and ratably in any distributions made on liquidation or dissolution, if any, after payment of all debts and liabilities; and have no preemptive, subscription or conversion rights. Holders of BHM Common Stock do not have cumulative voting rights.

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## SURVIVING CORPORATION

### PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

#### ASSETS

| | (In Thousands) | | |
|---|---|---|---|
| | Schenley Industries, Inc. and Consolidated Subsidiaries June 30, 1969 | Pro Forma (Note 1) —Assumed Issuance of— $1.40 Cumulative Convertible Preferred Stock | Common Stock |
| Current assets | $516,203 | $516,203 | $516,203 |
| Investments | 22,179 | 22,179 | 22,179 |
| Property, plant and equipment—net | 49,352 | 49,352 | 49,352 |
| Prepaid and deferred charges | 3,751 | 3,751 | 3,751 |
| Goodwill, brands, and trademarks | 18,796 | 18,796 | 18,796 |
| Total | $610,281 | $610,281 | $610,281 |

#### LIABILITIES

| | | | |
|---|---|---|---|
| Current liabilities | $194,345 | $194,345 | $194,345 |
| Long-term debt | 84,000 | 84,000 | 84,000 |
| Deferred taxes | 5,135 | 5,135 | 5,135 |
| Minority interest in subsidiary | 19,921 | — | — |
| Shareholders' equity: | | | |
| Cumulative convertible preference stock | 71 | 71 | 71 |
| $1.40 cumulative convertible preferred stock; par value $1.00, authorized and pro forma outstanding 2,745,550 shares (liquidation preference—$65,893,200) | — | 2,746 | — |
| Common stock | 8,789 | 8,789 | 11,095 |
| Capital surplus | 59,599 | 62,949 | 63,389 |
| Retained earnings | 273,124 | 286,949 | 286,949 |
| Less—Treasury stock, at cost | (34,703) | (34,703) | (34,703) |
| Shareholders' equity | 306,880 | 326,801 | 326,801 |
| Total | $610,281 | $610,281 | $610,281 |
| Book value per share of common stock | $39.06 | $33.17 | $31.61 |

Notes:

1. Adjustments to give effect to the proposed merger of Schenley and BHM in a pooling of interests by issuance of either 2,745,550 shares of Schenley $1.40 Cumulative Convertible Preferred Stock or 2,470,995 shares of Schenley Common Stock for 2,745,550 shares of BHM Common Stock (after cancellation of Schenley's investment in 3,054,450 shares of BHM Common Stock) are as follows:

| Account | Pro Forma Adjustment —Assumed Issuance of— $1.40 Cumulative Convertible Preferred Stock | Common Stock |
|---|---|---|
| | (In Thousands) Increase (Decrease) | |
| Minority interest in subsidiary | $(19,921) | $(19,921) |
| $1.40 Cumulative Convertible Preferred Stock | 2,746 | — |
| Common Stock | — | 2,306 |
| Capital surplus | 3,350 | 3,790 |
| Retained Earnings | 13,825 | 13,825 |

2. This pro forma condensed consolidated balance sheet should be read in conjunction with the consolidated balance sheet of Schenley together with the related notes to financial statements applicable thereto and in conjunction with the information under "Proposed Merger" all included elsewhere herein.

3. No provision has been made for expenses (not expected to exceed $660,000) to be incurred in connection with the proposed merger nor for assumed exercise of outstanding Schenley stock options.

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## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Schenley Industries, Inc.:

We have examined the consolidated balance sheet of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1968, and the related statements of consolidated income, retained earnings and capital surplus for the four months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co., Ltd., a 75%-owned British subsidiary not consolidated. With respect to such subsidiaries, we have been furnished with reports of other accountants.

In our opinion, based on our examination and the reports of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings and capital surplus present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies at December 31, 1968 and the results of their operations for the four months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York, N. Y.
March 19, 1969

A1117

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Schenley Industries, Inc.:

We have examined the statement of consolidated income of Schenley Industries, Inc., (a Delaware corporation) and subsidiary companies for the five years ended August 31, 1968, and the related statements of retained earnings and capital surplus for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of The Buckingham Corporation (52.66% owned) and certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co., Ltd. (a 75% owned British subsidiary not consolidated), for periods subsequent to August 31, 1964. We have been furnished with the reports of other auditors with respect to such subsidiaries.

In our opinion, based upon our examination and the reports of other auditors referred to above, the accompanying statements of consolidated income, retained earnings and capital surplus present fairly the results of operations of Schenley Industries, Inc. and subsidiary companies for the five years ended August 31, 1968, in conformity with generally accepted accounting principles applied (after retroactive restatement for the change described in note (c) to the statement of consolidated income) consistently during the periods.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
October 31, 1968.

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## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BUCKINGHAM CORPORATION:

We have examined the balance sheet of The Buckingham Corporation as of August 31, 1968 and the related statement of income and retained earnings for the four years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements (not presented separately herein) present fairly the financial position of The Buckingham Corporation at August 31, 1968 and the results of its operations for the four years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

New York, N. Y.
September 27, 1968

## REPORTS OF CHARTERED ACCOUNTANTS

To: CANADIAN SCHENLEY DISTILLERIES, LTD.

We have examined the consolidated balance sheet of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of December 31, 1968, and the related statements of Consolidated Income and Retained Earnings for the four years and four months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

At September 1, 1965, (in order to conform to the accounting method followed by Schenley Industries, Inc.) the Company changed its accounting treatment of barrel costs. Prior to that date, the cost of a barrel was included in the cost of goods sold after its first use by the Company. Under the present practice the cost of a barrel is being amortized over the period of its expected usefulness. Had the previous practice been in effect the net income reported for the year ended August 31, 1966, would have been approximately $118,000 lower.

In our opinion, based upon our examination, the financial statements referred to above (not separately presented herein) present fairly the consolidated financial position of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of December 31, 1968, and the results of their operations for the four years and four months then ended in conformity with generally accepted accounting principles applied, except for the change in accounting for the cost of barrels referred to in the preceding paragraph, consistently during the periods.

SAMSON, BELAIR, COTE,
LACROIX & ASSOCIES
Chartered Accountants

Montreal, February 10, 1969.

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**To the Members of Seager Evans & Co., Limited**

We have examined the consolidated balance sheet at December 31, 1968, and the related consolidated profit and loss account for the four years and four months then ended of Seager Evans & Co., Limited and subsidiaries. We have obtained all the information and explanations which we considered necessary. Our examination was made in accordance with generally accepted auditing standards and included all procedures necessary in the circumstances. The accounts of the principal subsidiary companies have been audited by other auditing firms whose reports thereon have been furnished to us.

In our opinion, based upon our examination and the aforementioned reports of other auditing firms, such financial statements and the notes thereto, (not presented separately herein) present fairly the consolidated financial position of Seager Evans & Co., Limited and subsidiaries at December 31, 1968, and the results of the group for each of the four years and four months then ended in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

London, England.
3rd February, 1969

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# SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## CONSOLIDATED BALANCE SHEET

### December 31, 1968 and (Unaudited) June 30, 1969

ASSETS

| | December 31, 1968 | June 30, 1969 (Unaudited) |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 21,513,271 | $ 20,390,972 |
| Certificates of Deposit | 2,000,000 | 4,000,000 |
| Other Marketable Securities, at Cost which Approximates Market | 29,086,623 | 39,088,776 |
| Notes and Accounts Receivable | 128,897,063 | 115,847,318 |
| Less—Reserve for Doubtful Accounts | 1,335,912 | 1,388,739 |
| | 127,561,151 | 114,458,579 |
| Inventories (Note 2): | | |
| Whisky, Other Spirits and Wine, at Cost— | | |
| Tax paid | 28,721,162 | 31,384,760 |
| In Bond | 293,599,775 | 285,494,447 |
| Other Products, Materials and Supplies, at Lower of Cost or Market | 18,174,639 | 21,385,905 |
| | 340,495,576 | 338,265,112 |
| Total Current Assets | 520,656,621 | 516,203,439 |
| INVESTMENTS (Note 1): | | |
| Seager Evans & Co., Ltd., Stated at Equity in Underlying Net Assets | 18,898,423 | 19,054,423 |
| Other Investments, at Cost | 2,997,313 | 3,124,383 |
| | 21,895,736 | 22,178,806 |
| PROPERTY, PLANT AND EQUIPMENT (Note 3): | | |
| Land, Buildings, Machinery, Equipment, etc., at Cost | 117,375,941 | 118,916,332 |
| Less—Accumulated Depreciation and Amortization | 68,155,085 | 69,564,025 |
| | 49,220,856 | 49,352,307 |
| PREPAID AND DEFERRED CHARGES | 3,523,488 | 3,750,956 |
| GOODWILL, BRANDS AND TRADEMARKS (Notes 1 and 9) | 18,880,656 | 18,795,655 |
| | $614,177,357 | $610,281,163 |

The accompanying notes to consolidated financial statements are an integral part of the above Consolidated Balance Sheet.

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## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1968 and (Unaudited) June 30, 1969

### LIABILITIES AND SHAREHOLDERS' INTEREST

| | December 31, 1968 | June 30, 1969 (Unaudited) |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes Payable—Short-Term | $140,000,000 | $134,500,000 |
| Current Maturity of Long-Term Debt (Note 5) | 4,750,000 | 1,250,000 |
| Accounts Payable—Trade | 19,851,833 | 13,831,610 |
| Accrued Payrolls and Employee Benefits | 3,809,229 | 3,957,307 |
| Accrued Interest Payable | 1,757,472 | 1,669,458 |
| Sundry Taxes, Including Federal Excise Taxes | 14,620,583 | 22,209,020 |
| Reserve for Federal Income Taxes | 3,052,210 | 960,963 |
| Sundry Accrued and Other Current Liabilities | 13,500,575 | 15,966,748 |
| Total Current Liabilities | 201,341,902 | 194,345,106 |
| LONG-TERM DEBT (Note 5) | 84,000,000 | 84,000,000 |
| DEFERRED TAXES (Note 3) | 4,990,000 | 5,135,000 |
| MINORITY INTEREST IN BHM INDUSTRIES, INC. (Note 1): | | |
| Capital Stock | 1,372,775 | 1,372,775 |
| Capital Surplus | 4,723,256 | 4,723,256 |
| Retained Earnings | 13,403,047 | 13,824,890 |
| | 19,499,078 | 19,920,921 |
| SHAREHOLDERS' INTEREST: | | |
| Cumulative Convertible Preference Stock— | | |
| Authorized—4,000,000 shares of $.35 par value | | |
| Issued—203,929 and 202,511 shares at December 31, 1968 and June 30, 1969, respectively (preference on involuntary liquidation—$2,039,290 at December 31, 1968 and $2,025,110 at June 30, 1969) (Note 8) | 71,375 | 70,879 |
| Common Stock— | | |
| Authorized—20,000,000 shares of $.93⅓ par value | | |
| Issued—9,411,585 and 9,417,219 shares at December 31, 1968 and June 30, 1969, respectively (Notes 7 and 8) | 8,784,146 | 8,789,404 |
| Capital Surplus | 59,532,437 | 59,599,128 |
| Retained Earnings (Notes 1 and 5) | 270,661,724 | 273,124,030 |
| | 339,049,682 | 341,583,441 |
| Less—Treasury Stock, at Cost—486 Shares of Cumulative Convertible Preference Stock and 1,612,276 Shares of Common Stock | 34,703,305 | 34,703,305 |
| | 304,346,377 | 306,880,136 |
| | $614,177,357 | $610,281,163 |

CONTINGENT LIABILITIES (Notes 2 and 10)

The accompanying notes to consolidated financial statements are an integral part of the above Consolidated Balance Sheet.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED RETAINED EARNINGS

**For the Three Years Ended August 31, 1968, the Four Months Ended December 31, 1968 and (Unaudited) Six Months Ended June 30, 1969**

| | Fiscal Years Ended August 31 | | | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 (Unaudited) |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | | |
| Balance Beginning of Period (Note 1) | $238,577,091 | $250,050,106 | $265,338,672 | $272,241,798 | $270,661,724 |
| Add— | | | | | |
| Net Income | 20,469,743 | 22,725,868 | 16,793,876 | 3,520,724 | 7,568,942 |
| | 259,046,834 | 272,775,974 | 282,132,548 | 275,762,522 | 278,230,666 |
| Deduct— | | | | | |
| Cash dividends: | | | | | |
| Cumulative convertible preference stock ($.50, $.50, $.50, $.25 and $.25 per share, respectively) | 478,219 | 325,462 | 275,747 | 50,620 | 50,506 |
| Common stock—regular ($.86⅔, $.93⅓, $1.25, $.65 and $.65 per share, respectively) | 6,518,235 | 7,111,840 | 9,615,003 | 5,050,178 | 5,056,130 |
| Common stock—special ($.26⅔ per share) | 2,000,274 | — | — | — | — |
| | 8,996,728 | 7,437,302 | 9,890,750 | 5,100,798 | 5,106,636 |
| Balance End of Period | $250,050,106 | $265,338,672 | $272,241,798 | $270,661,724 | $273,124,030 |

### STATEMENT OF CONSOLIDATED CAPITAL SURPLUS

**For the Three Years Ended August 31, 1968, the Four Months Ended December 31, 1968 and (Unaudited) Six Months Ended June 30, 1969**

| | Fiscal Years Ended August 31 | | | Four Months Ended December 31, 1968 | Six Months Ended June 30, 1969 (Unaudited) |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | | |
| Balance Beginning of Period | $58,337,049 | $58,803,618 | $59,318,361 | $59,503,968 | $59,532,437 |
| Add—Excess of option price over par value of common stock and cumulative convertible preference stock sold and from conversions of cumulative convertible preference stock into common stock (Notes 7 and 8) | 466,569 | 514,743 | 185,607 | 28,469 | 66,691 |
| Balance End of Period | $58,803,618 | $59,318,361 | $59,503,968 | $59,532,437 | $59,599,128 |

The accompanying notes to consolidated financial statements are an integral part of the above statements.

# SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**(Including Notes Applicable to Unaudited Period)**

**(1) Principles of Consolidation:**

All significant subsidiary companies (other than Seager Evans & Co., Ltd.) have been consolidated including the accounts of BHM Industries, Inc. and its wholly-owned subsidiary, The Buckingham Corporation, since August 31, 1964, the date of Schenley's purchase of 52.66% of Buckingham's outstanding capital stock (now 52.66% of BHM's outstanding Common Stock).

The financial statements of Canadian subsidiaries have been consolidated herein on the basis of translating current assets (other than inventories held for sale in the United States and other non-Canadian markets) and current liabilities at the rates prevailing at each date, while property, plant and equipment and inventories held for sale in the United States and other non-Canadian markets have been translated at historical U. S. dollar cost.

The accounts of Seager Evans & Co., Ltd., a subsidiary in Great Britain in which Schenley owns 75% of the outstanding capital stock, have not been consolidated herein. Effective for the year ended August 31, 1965, Schenley adopted the policy of stating its investment at its equity in underlying net assets and including in consolidated income its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager Evans. Schenley previously carried this investment at cost and included in consolidated net income only the dividends received. Retroactive application of this change in accounting policy had the effect of increasing net income as previously reported by $891,876 for fiscal year ended August 31, 1964. The computation of such equity is based upon financial statements in pounds sterling which are translated in the same manner as the financial statements of the Canadian subsidiaries explained above. Cash dividends of $939,573 in fiscal 1968; $1,092,000 in fiscal 1967; $779,938 in fiscal 1966; $643,248 in the four months ended December 31, 1968 and $288,000 in the six months ended June 30, 1969, have been credited to Schenley's investment in Seager Evans. The carrying value of Schenley's investment in Seager Evans exceeded cost by $9,964,421 at December 31, 1968 and $10,120,421 at June 30, 1969. This amount is included in Consolidated Retained Earnings.

The charges and credits resulting from the translation of the above-mentioned financial statements of the Canadian subsidiaries and Seager Evans & Co. Ltd., which are insignificant in amount, are reflected in income.

Separate financial statements have not been presented for Seager Evans & Co. Ltd. or other nonconsolidated subsidiaries since they, considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary. In the preparation of the consolidated financial statements, intercompany balances and transactions were eliminated.

The amount at which investments in the capital stocks of subsidiaries consolidated were carried on the books of Schenley was $72,563,104 at December 31, 1968 and $75,390,081 at June 30, 1969 less than Schenley's equity in the net assets of such subsidiaries, as shown by the books of the latter at such date. In the consolidated financial statements, this difference has been treated as follows:

| | December 31, 1968 | June 30, 1969 |
|---|---|---|
| Included in consolidated retained earnings | $89,950,362 | $92,829,633 |
| Added to: | | |
| Goodwill, brands and trademarks | $18,468,030 | $18,383,027 |
| Property, plant and equipment | 377,000 | 377,000 |
| Deducted from inventories—intercompany profits in inventory | (1,457,772) | (1,320,475) |
| | $17,387,258 | $17,439,552 |
| | $72,563,104 | $75,390,081 |

**(2) Inventories:**

The inventories in bond, classified as current assets in accordance with the general practice of the industry, include whisky and other spirits which, in the normal course of business, will remain in storage to be aged for a period of several years. It is not possible to state the amount of the inventory which will be realized within one year.

Federal, state and other liquor taxes and duties (payable upon withdrawal of the products from bond or as otherwise required under existing laws) which constitute a lien, substantial in amount, on the inventories of whisky and other spirits and wine carried on the books of Schenley and its subsidiaries, cannot be determined definitely at the present time. Inasmuch as these taxes and duties are not payable until withdrawal or removal of such products from bond or other Government-controlled premises and in accordance with the practice of the industry, the liability therefor has not been reflected in the accounts.

Whisky and other domestic spirits are priced at cost; other inventories are priced at the lower of average cost or market. Costs of bulk whiskies are kept by type of whisky and date of production (i.e., by seasons—spring and fall). Effective in 1965, Schenley made certain changes in its cost accounting practices which do not significantly affect the financial statements for the five years ended August 31, 1968, the four months ended December 31, 1968 or the six months ended June 30, 1969. Under the cost accounting practices in effect prior to 1965, all domestic bulk whiskies which were four years of age or older at December 31, 1964, are carried in inventory at average cost within major categories. Effective January 1, 1965, all other domestic bulk whiskies are carried at actual production costs for the season in which produced, or at actual cost if purchased. Warehousing, insurance and barrel costs applicable to whisky

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and spirits held for aging and taxes and duties, when paid, are included in inventory. The aggregate amounts of the inventories at the beginning and end of the period, for the three years ended August 31, 1968, the four months ended December 31, 1968 and the six months ended June 30, 1969 were as follows:

| | |
|---|---|
| August 31, 1965 | $290,621,446 |
| 1966 | 311,105,338 |
| 1967 | 318,256,517 |
| 1968 | 342,809,093 |
| December 31, 1968 | 340,495,576 |
| June 30, 1969 | 338,265,112 |

**(3) Property, Plant and Equipment:**

Detail of property, plant and equipment and the related reserves for depreciation or amortization is as follows:

| | December 31, 1968 | | June 30, 1969 | |
|---|---|---|---|---|
| | Assets | Accumulated Depreciation and Amortization | Assets | Accumulated Depreciation and Amortization |
| Land | $ 3,511,580 | $ — | $ 3,440,427 | $ — |
| Buildings and improvements | 53,445,779 | 29,182,709 | 53,734,041 | 29,575,192 |
| Machinery and equipment | 49,721,311 | 35,107,547 | 51,010,686 | 36,031,768 |
| Furniture and fixtures | 3,935,780 | 2,922,959 | 3,941,317 | 2,962,995 |
| Other | 6,761,491 | 941,870 | 6,789,861 | 994,070 |
| | $117,375,941 | $68,155,085 | $118,916,332 | $69,564,025 |

Property, plant and equipment is stated generally at cost. The amount at which property and plant is carried does not purport to represent its present day replacement or realizable value.

For accounting purposes, depreciation is provided principally on a straight-line method at specific rates applied to individual assets. The rates of depreciation used are generally as follows:

| | |
|---|---|
| Buildings | 2-8% |
| Machinery and equipment | 4-25% |
| Other | 2½-33⅓% |
| Leasehold improvements | Duration of lease or life of improvement, whichever is shorter. |

For Federal income tax purposes, Schenley and its domestic subsidiaries use guideline rates, pursuant to Internal Revenue Service Procedure 62-21, and the Canadian subsidiaries compute depreciation for income tax purposes using accelerated methods. The resulting reduction in income taxes currently payable for the five years ended August 31, 1968, the four months ended December 31, 1968 and the six months ended June 30, 1969 which was added to the provision for taxes on income and included in deferred taxes is as follows:

| Year Ended August 31 | United States | Canadian | Total |
|---|---|---|---|
| 1964 | $900,000 | $ — | $ 900,000 |
| 1965 | 865,000 | — | 865,000 |
| 1966 | 868,000 | 204,000 | 1,072,000 |
| 1967 | 800,000 | 194,000 | 994,000 |
| 1968 | (62,000) | 270,000 | 208,000 |
| Four months ended December 31, 1968 | (25,000) | 86,000 | 61,000 |
| Six months ended June 30, 1969 | 90,000 | 46,000 | 136,000 |

Provision for depreciation on property used in production and storage of maturing spirits is added to the cost of the inventory.

Depreciation and amortization on property, plant and equipment provided during the five years ended August 31, 1968, the four months ended December 31, 1968 and the six months ended June 30, 1969 is as follows:

| Year Ended August 31 | Amount |
|---|---|
| 1964 | $2,841,025 |
| 1965 | 3,129,758 |
| 1966 | 3,330,006 |
| 1967 | 3,377,364 |
| 1968 | 3,579,526 |
| Four months ended December 31, 1968 | 1,266,667 |
| Six months ended June 30, 1969 | 1,915,375 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

All maintenance and repair costs and renewals which do not involve substantial betterment are charged to costs of production or directly to expense. When an item or unit of property is replaced and substantial betterment results, the cost of the replaced property is removed from the property account and the cost of the replacement property is capitalized.

At the time of retirement or sale of properties, an amount equivalent to depreciation of the asset, calculated at specific depreciation rates, is transferred from the property account to the reserve for depreciation and the remaining balance, if any, in the property account, less salvage value, is charged or credited to profit and loss.

**(4) Investment Credit:**

Schenley and its domestic subsidiaries have adopted the policy of reducing the provision for Federal income tax by the full amount of the estimated allowable investment credit. The amount of such reduction in the provision for Federal taxes on income is as follows:

| Year Ended August 31 | Amount |
|---|---|
| 1964 | $669,060 |
| 1965 | 724,640 |
| 1966 | 717,311 |
| 1967 | 578,593 |
| 1968 | 657,281 |
| Four months ended December 31, 1968 | 142,316 |
| Six months ended June 30, 1969 | 265,717 |

**(5) Long-term Debt:**

At December 31, 1968 and June 30, 1969, long-term debt was comprised of the following loans from insurance companies:

| | |
|---|---|
| Due March 1, 1979 at 6.50% | $71,500,000 |
| Due November 1, 1975 at 3% (prepayments of $1,250,000 in 1969, and thereafter at $2,000,000 annually until November 1, 1975, when the remaining balance becomes due) | 12,500,000 |
| | $84,000,000 |

The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings. Under the agreements, payments for dividends and the acquisition of Schenley capital stock are restricted to the sum of $57,713,472 at June 30, 1969.

Aggregate minimum maturities for the five years subsequent to June 30, 1969, are as follows:

| Year Ended June 30 | |
|---|---|
| 1970 | $1,250,000 |
| 1971 | 2,000,000 |
| 1972 | 2,000,000 |
| 1973 | 2,000,000 |
| 1974 | 2,000,000 |

**(6) Employees' Retirement and Benefit Plan:**

Schenley has a trusteed noncontributory pension plan for most of its U. S. employees not covered by union plans. Retirement annuities are purchased by a pension trust to which Schenley contributes, as required. Group life insurance is provided on a contributory basis. Health and medical service benefits are provided with contributions being required from all employees who are not participants in both the retirement and life insurance programs. The plan provides that all contributions made by the companies shall be voluntary and that the companies shall not have any legal or equitable liability to make any such contributions.

Charges to inventory costs and operating expenses for pension costs (net of income tax benefit) in the six months ended June 30, 1969 amounted to $350,000; in the four months ended December 31, 1968 amounted to $250,000, and in the year ended August 31, 1968 amounted to $900,000 which amounts are presently estimated to be the normal service costs under the plan. No pension costs were provided during the preceding four years, and no contributions were made to the pension trust during the above periods ended June 30, 1969 since the liabilities actuarially computed were already fully funded. Costs of benefits accrued under other plans of subsidiaries, which are provided and funded currently, are not significant. Provision has been made for costs relating to the plan of a Canadian subsidiary which provides substantially the same benefits as Schenley's plan described above and certain plans provided for in collective bargaining agreements with labor unions.

The approximate annual costs, net of income tax benefits, to the companies for the life insurance, health and medical benefits referred to above for the six months ended June 30, 1969 were $280,000; for the four months ended December 31, 1968 were $220,000 and for the three fiscal years ended August 31, 1968, were $580,000 in 1968; $557,000 in 1967 and $395,000 in 1966.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In addition to the above, BHM's wholly-owned subsidiary, Buckingham, has a trusteed profit-sharing retirement plan for eligible employees. The plan requires a contribution by Buckingham to the profit-sharing trust fund for each year of an amount equal to the lesser of 15% of eligible employees' base compensation for such year or 33⅓% of the net earnings of Buckingham before taxes in excess of $850,000 (exclusive of capital gains and losses and before calculation of the contribution to the fund). The cost to Buckingham for employees covered under this plan, before any tax benefit, was $30,000 for the six months ended June 30, 1969; $13,000 for the four months ended December 31, 1968, and for the three fiscal years ended August 31, 1968, was $48,000 in 1968 and 1967, and $50,000 in 1966.

**(7) Stock Options and Key Executive Deferred Compensation Incentive Plan:**

Schenley's Employees' Share Purchase Plan provided for sale of shares of Schenley's common stock to certain key employees, including officers, at prices not less than 95% of fair market value at the date the option to purchase such shares was granted (after December 31, 1963, such price being 100% of fair market value). The Board of Directors determined in January 1966, that there would be no further grants under the Plan. Options become exercisable in cumulative periodic installments. As of December 31, 1968 and June 30, 1969, the maximum number of shares available for issue under the Plan and the number of shares subject to outstanding options was 6,900 and 1,500 shares of common stock, respectively as shown on the following tabulation:

| | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Date of Grant(2) Per Share | Fair Market Value at Date of Grant(2) Total |
|---|---|---|---|---|---|
| AT DECEMBER 31, 1968 | | | | | |
| GRANTED 1963-1965 | 6,900 | $12.508 to $15.417 | $ 94,608 | $13.167 to $15.417 | $ 96,706 |
| AT JUNE 30, 1969 | | | | | |
| GRANTED 1965 | 1,500 | $15.417 | $ 23,125 | $15.417 | $ 23,125 |

During the three years ended August 31, 1968, the four months ended December 31, 1968 and the six months ended June 30, 1969 options became exercisable as follows:

| | Shares(1) Preference | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Exercisable Date(2) Per Share | Fair Market Value at Exercisable Date(2) Total |
|---|---|---|---|---|---|---|
| YEAR ENDED AUGUST 31, 1966 | | | | | | |
| GRANTED 1958-1965 | 613 | 25,941 | $ 9.183 to $16.393 | $331,572 | $19.333 to $27.167 | $ 644,984 |
| YEAR ENDED AUGUST 31, 1967 | | | | | | |
| GRANTED 1958-1965 | 1,228 | 29,757 | $ 9.183 to $16.393 | $362,111 | $16.833 to $40.625 | $ 926,428 |
| YEAR ENDED AUGUST 31, 1968 | | | | | | |
| GRANTED 1963-1965 | -- | 10,200 | $12.508 to $15.417 | $134,237 | $32.583 to $47.750 | $ 409,762 |
| FOUR MONTHS ENDED DECEMBER 31, 1968 | | | | | | |
| GRANTED 1964-1965 | — | 3,900 | $12.785 to $15.417 | $ 54,252 | $45.250 to $49.375 | $ 183,075 |
| SIX MONTHS ENDED JUNE 30, 1969 | | | | | | |
| GRANTED 1965 | — | 750 | $15.417 | $ 11,563 | $32.875 | $ 24,656 |

During the three years ended August 31, 1968, the four months ended December 31, 1968 and the six months ended June 30, 1969 options were exercised as follows:

| | Shares(1) Preference | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Date Exercised(2) Per Share | Fair Market Value at Date Exercised(2) Total |
|---|---|---|---|---|---|---|
| YEAR ENDED AUGUST 31, 1966 | | | | | | |
| GRANTED 1958-1965 | 904 | 35,041 | $ 9.183 to $22.515 | $499,589 | $20.750 to $28.375 | $ 896,406 |
| YEAR ENDED AUGUST 31, 1967 | | | | | | |
| GRANTED 1958-1965 | 1,907 | 40,401 | $ 9.183 to $22.515 | $552,692 | $20.583 to $42.667 | $1,350,279 |
| YEAR ENDED AUGUST 31, 1968 | | | | | | |
| GRANTED 1962-1965 | — | 11,250 | $12.508 to $15.417 | $150,897 | $31.375 to $52.375 | $ 428,862 |
| FOUR MONTHS ENDED DECEMBER 31, 1968 | | | | | | |
| GRANTED 1964 | — | 750 | $13.000 | $ 9,750 | $46.25 | $ 34,688 |
| SIX MONTHS ENDED JUNE 30, 1969 | | | | | | |
| GRANTED 1963-1965 | — | 5,400 | $12.508 to $15.417 | $ 71,483 | $36.500 to $43.750 | $ 208,350 |

(1) The option price and per share data relate only to common shares. Preference shares were also issuable under the Plan to reflect stock dividends paid in such stock.

(2) Average of high and low on New York Stock Exchange.

(3) The information in this Note reflects the 3 for 2 common stock split referred to in Note (d) to the Statement of Consolidated Income included elsewhere herein.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For each common share purchased upon exericse of an option, $.93⅓ of the purchase price was credited to common stock and, where applicable, $.35 was credited to preference stock and the balance to capital surplus. No charge was reflected in the income statement relative to any option.

As of December 31, 1968 and June 30, 1969 options with respect to 6,150 and 1,500 common shares were exercisable, respectively. An option for the 750 remaining common shares at December 31, 1968 became exercisable prior to June 30, 1969.

Under Schenley's trusteed Key Executive Deferred Compensation Incentive Plan approved by the shareholders in 1966, deferred compensation units, each equal to one share of Schenley's common stock were awarded to key employees of Schenley in fiscal years 1966 and 1967. Under the same plan, as amended, deferred cash awards were granted, instead, with respect to the fiscal year 1968. The costs applicable to the awards, thus granted, have been accrued and charged to income. The Board of Directors has terminated the Key Executive Deferred Compensation Incentive Plan effective as of October 31, 1968.

**(8) Cumulative Preference Stock:**

The cumulative preference stock may be redeemed in whole or in part upon resolution of the Board of Directors at a redemption price of $10 per share plus cumulative dividends. There were no arrearages in cumulative dividends as of December 31, 1968 or June 30, 1969. Each share of such stock, at December 31, 1968 and June 30, 1969, was convertible into 3/16 of a share of Schenley's Common Stock. The conversion right expires on December 31, 1969.

**(9) Goodwill, Brands and Trademarks:**

A substantial portion of intangibles represents [illegible]s of the purchase price over equity in net tangible assets of companies acquired, and is not being amortized [illegible] in the opinion of Schenley there has been no diminution of value. The balance is being amortized using a pre-determined rate applied to sales of certain products.

**(10) Contingent Liabilities:**

On April 25, 1966, the United States Department of Justice filed a civil antitrust case naming Schenley and The Buckingham Corporation as defendants. The suit asserts that the acquisition of 52.66% of the stock of The Buckingham Corporation by Schenley on August 31, 1964, was in violation of the antimerger section of the Clayton Act. Schenley has filed an answer denying the material allegations of the complaint and asserting, in addition, various separate and complete defenses to the action. The case is pending in the United States District Court for the Southern District of New York. Counsel for Schenley are of the opinion that Schenley has meritorious defenses to this complaint.

It is anticipated that this case will be tried sometime in the fall of 1969. Discussions with the Justice Department with respect to a consent decree in the case are currently pending.

Schenley and certain of its subsidiaries are contingently liable under certain guarantees, letters of credit and litigation now pending. Schenley considers that the final disposition of these contingencies will not involve amounts that are material in relation to its consolidated financial position. See "History and Business of Schenley—Litigation" elsewhere herein.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

**(11) Supplementary Profit and Loss Information:**

| | Fiscal Years Ended August 31 | | | Four Months Ended December 31, | Six Months Ended June 30, |
|---|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1968 | 1969 |
| **Maintenance and repairs:** | | | | | |
| Charged directly to profit and loss | $ 127,069 | $ 193,847 | $ 227,264 | $ 65,450 | $ 98,175 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 3,397,205 | 2,723,104 | 2,681,488 | 996,366 | 1,494,549 |
| | $ 3,524,274 | $ 2,916,951 | $ 2,908,752 | $ 1,061,816 | $ 1,592,724 |
| **Depreciation and amortization of fixed and intangible assets:** | | | | | |
| Charged directly to profit and loss | $ 552,760 | $ 576,274 | $ 644,978 | $ 229,311 | $ 361,222 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 2,925,277 | 2,932,089 | 3,077,548 | 1,080,356 | 1,639,153 |
| | $ 3,478,037 | $ 3,508,363 | $ 3,722,526 | $ 1,309,667 | $ 2,000,375 |
| **Taxes, other than income taxes:** | | | | | |
| Charged directly to profit and loss | $ 3,190,793 | $ 3,053,890 | $ 4,133,782 | $ 1,179,249 | $ 2,195,018 |
| Charged to other accounts: | | | | | |
| Inventory costs, etc. | 259,375,883 | 257,491,903 | 253,908,467 | 97,073,743 | 145,819,259 |
| Sales, Accounts Receivable, etc. | 10,278,735 | 13,381,736 | 16,266,531 | 1,376,691 | 2,202,705 |
| | $272,845,411 | $273,927,529 | $274,308,780 | $99,629,683 | $150,216,982 |
| **Detail of taxes included above:** | | | | | |
| Federal excise and rectification taxes, duties on imported products, and other Federal taxes | $252,584,551 | $250,254,823 | $246,489,035 | $89,057,721 | $135,092,000 |
| State beverage taxes | 6,145,533 | 8,536,464 | 11,877,111 | 6,723,412 | 8,439,750 |
| License fees, production and state stamp taxes | 6,717,945 | 6,211,663 | 5,670,164 | 1,665,087 | 2,635,299 |
| State and local property and franchise taxes | 5,474,537 | 6,818,206 | 8,275,499 | 1,631,669 | 2,471,028 |
| Social Security taxes | 1,922,845 | 2,106,373 | 1,996,971 | 551,794 | 1,578,905 |
| | $272,845,411 | $273,927,529 | $274,308,780 | $99,629,683 | $150,216,982 |
| **Rents and royalties:** | | | | | |
| Charged directly to profit and loss | $ 1,466,335 | $ 1,573,784 | $ 1,568,973 | $ 929,927 | $ 1,384,663 |
| Charged to other accounts | 253,746 | 205,802 | 216,540 | 62,947 | 90,000 |
| | $ 1,720,081 | $ 1,779,586 | $ 1,785,513 | $ 992,874 | $ 1,474,663 |

(1) The information shown as "charged to other accounts" applies in part to expenses incurred in production and storage of maturing whisky and other spirits; under the methods of accounting followed by the companies, such expenses become a part of inventory cost and are charged to profit and loss when such products are sold.

(2) Schenley and its subsidiaries are lessees under seventeen lease agreements which expire more than three years after June 30, 1969. The aggregate annual rental under these agreements is approximately $1,360,000.

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

BHM INDUSTRIES, INC.:

We have examined the consolidated balance sheet of BHM Industries, Inc. (see Note 1) as of December 31, 1968 and the related statements of consolidated income for the five years then ended and consolidated retained earnings for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of BHM Industries, Inc. at December 31, 1968 and the results of its operations for the stated years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

New York, N. Y.
February 3, 1969

(except Note 1, which is
as of May 15, 1969)

A1129

## BHM INDUSTRIES, INC. (Note 1)

### CONSOLIDATED BALANCE SHEET

### December 31, 1968 and (Unaudited) June 30, 1969

ASSETS

| | December 31, 1968 | June 30, 1969 (Unaudited) |
|---|---|---|
| CURRENT ASSETS (exclusive of assets in Scotland and England): | | |
| Cash | $ 1,832,623 | $ 541,531 |
| Short-term investments, at cost which approximates market | 31,086,623 | 32,708,997 |
| Accounts receivable—trade (less allowances of $45,658 and $54,861) | 3,670,904 | 3,096,528 |
| Inventories of cased goods, at cost ("first-in, first-out") not in excess of market (Note 2) | 2,743,478 | 3,136,232 |
| Other current assets | 557,582 | 602,136 |
| TOTAL CURRENT ASSETS (exclusive of assets in Scotland and England) | 39,891,210 | 40,085,424 |
| ASSETS IN SCOTLAND AND ENGLAND: | | |
| Cash—U. S. dollar and sterling demand and time deposits | 164,195 | 185,773 |
| Inventories of bulk Scotch whiskies, at invoice cost (Note 3) | 6,472,273 | 6,472,273 |
| Investment in foreign security, at cost (market quotation of $1,850,850 and $1,567,050) | 779,117 | 779,117 |
| TOTAL ASSETS IN SCOTLAND AND ENGLAND | 7,415,585 | 7,437,163 |
| PROPERTY AND EQUIPMENT (Note 4): | | |
| Property and equipment—at cost | 80,326 | 905,741 |
| Less accumulated depreciation and amortization | 68,809 | 78,571 |
| PROPERTY AND EQUIPMENT—NET | 11,517 | 827,170 |
| TOTAL | $47,318,312 | $48,349,757 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 1,034,552 | $ 1,104,805 |
| Accrued liabilities | 1,808,924 | 2,383,929 |
| Taxes on income | 2,970,372 | 725,413 |
| Dividend payable | — | 1,740,000 |
| TOTAL CURRENT LIABILITIES | 5,813,848 | 5,954,147 |
| STOCKHOLDERS' EQUITY: | | |
| Common Stock, $.50 par value, authorized 9,000,000 shares, outstanding 5,800,000 shares | 2,900,000 | 2,900,000 |
| Additional paid-in capital (No change during three years and six months ended June 30, 1969) | 9,977,922 | 9,977,922 |
| Retained earnings | 28,626,542 | 29,517,688 |
| TOTAL STOCKHOLDERS' EQUITY | 41,504,464 | 42,395,610 |
| CONTINGENT LIABILITIES (Note 7) | | |
| TOTAL | $47,318,312 | $48,349,757 |

See Notes to Financial Statements.

## BHM INDUSTRIES, INC. (Note 1)

### STATEMENT OF CONSOLIDATED RETAINED EARNINGS

### For the Three Years Ended December 31, 1968 and (Unaudited) Six Months Ended June 30, 1969

| | Year Ended December 31, | | | Six Months Ended June 30, |
|---|---|---|---|---|
| | 1966 | 1967 | 1968 | 1969 (Unaudited) |
| Retained earnings at beginning of period | $24,463,733 | $24,893,972 | $26,576,480 | $28,626,542 |
| Add—Net income | 6,230,239 | 7,772,508 | 9,010,062 | 4,371,146 |
| Less—Dividends on common stock ($1.00, $1.05, $1.20, and $.60 per share) | (5,800,000) | (6,090,000) | (6,960,000) | (3,480,000) |
| Retained earnings at end of period | $24,893,972 | $26,576,480 | $28,626,542 | $29,517,688 |

See Notes to Financial Statements.

## BHM INDUSTRIES, INC. (Note 1)

### NOTES TO FINANCIAL STATEMENTS

### For the Three Years Ended December 31, 1968 and (Unaudited) Six Months Ended June 30, 1969

1. MERGER WITH THE BUCKINGHAM CORPORATION

BHM Industries, Inc. was formed on March 20, 1969 in connection with a reorganization consummated on May 15, 1969 pursuant to which The Buckingham Corporation became a wholly-owned subsidiary of BHM Industries, Inc. in a transaction which has been accounted for as a pooling of interests and retroactive effect has been given to this transaction in the accompanying financial statements. BHM Industries, Inc. had no operations prior to May 15, 1969; accordingly, the accompanying consolidated financial statements as of December 31, 1968, and for the years then ended are those of The Buckingham Corporation.

2. INVENTORIES OF CASED GOODS

The inventories at December 31, 1968 and June 30, 1969, at cost on a "first-in, first-out" basis (not in excess of market), were as follows:

| | December 31, 1968 | June 30, 1969 |
|---|---|---|
| In warehouses and on piers in the United States: | | |
| Tax paid | $ 948,350 | $1,283,443 |
| In bond | 1,509,533 | 1,575,728 |
| In transit | 285,595 | 277,061 |
| Total | $2,743,478 | $3,136,232 |

Federal excise taxes and duty on cased goods in bond, which constitute a lien on such goods and which are not payable until withdrawal from bond, have not been taken up as a liability in the accounts. To the extent they are paid, the amount of such taxes and duty will result in a corresponding increase in the cost of inventories.

The inventories (exclusive of Federal excise taxes and duty not paid and not payable at the respective dates) used in computing cost of sales were as follows:

| | |
|---|---|
| December 31, 1965 | $1,729,845 |
| December 31, 1966 | 2,092,488 |
| December 31, 1967 | 1,490,502 |
| December 31, 1968 | 2,743,478 |
| June 30, 1969 | 3,136,232 |

3. ASSETS IN SCOTLAND AND ENGLAND

The inventories of Scotch whiskies located in Scotland at December 31, 1968 and June 30, 1969, at invoice cost, consisted of whiskies in process of aging aggregating $6,472,273.

The quantity of whiskies to be blended, bottled, and exported within one year cannot now be ascertained; therefore, it is not possible to state the amount of the inventories which will be realized in such period.

4. PROPERTY AND EQUIPMENT AND ACCUMULATED DEPRECIATION AND AMORTIZATION

In June 1969 BHM purchased an executive aircraft for $750,000. BHM has leased this aircraft to Glen Alden Corporation under a five year lease at an approximate annual rental of $156,000. See "History and Business of BHM—Certain Transactions" elsewhere herein.

Depreciation is provided by charges to income on the straight-line method at the following annual rates:

| | |
|---|---|
| Furniture and fixtures | 10% |
| Trucks | 25% |
| Aircraft | 16⅔% |

Leasehold improvements are amortized over the life of the lease.

Maintenance and repairs are charged to income; major renewals and betterments are capitalized. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of sale or retirement; the resultant gains or losses are included in income.

5. FEDERAL INCOME TAX

The Internal Revenue Service has examined Buckingham's tax returns and all outstanding matters have been settled through the year ended December 31, 1966.

## BHM INDUSTRIES, INC. (Note 1)

### NOTES TO FINANCIAL STATEMENTS—(Continued)

6. PROFIT-SHARING RETIREMENT PLAN

Buckingham has a trusteed Profit-Sharing Retirement Plan for eligible employees. The Plan requires a contribution by Buckingham to the Profit-Sharing Trust Fund for each year of an amount equal to the lesser of 15% of eligible employees' base compensation for such year or 33⅓% of the net earnings of Buckingham in excess of $850,000 before taxes (exclusive of capital gains and losses and before calculation of the contribution to the Fund). The contribution provision for the three years and six months ended June 30, 1969 amounted to $43,515, $46,352, $46,577 and $30,000, respectively, and are included in general and administrative expenses. There is no unfunded past service cost in connection with the Plan.

7. LITIGATION

In April 1966, the United States Department of Justice filed a civil anti-trust suit against Schenley Industries, Inc. and The Buckingham Corporation charging that Schenley's acquisition of shares of outstanding stock of Buckingham on August 31, 1964 was in violation of Section 7 of the Clayton Act. The suit, in part, seeks an order requiring Schenley to divest itself of its holdings of Buckingham stock. No money damages, other than plaintiff's costs, are sought by the plaintiff.

In October and December 1968, private actions were commenced in certain United States District Courts against Buckingham, Schenley and others seeking damages in the maximum aggregate of forty million dollars against all defendants and injunctive relief for alleged violations of anti-trust laws and alleged breach of exclusive distributorship agreements. In the opinion of Buckingham's counsel, based on analysis of the facts and discussions with trial counsel, Buckingham has substantial defenses to the allegations to the complaints, and any monetary recovery which may be made against Buckingham in these actions will not be material in amount.

See "HISTORY AND BUSINESS OF BHM—LITIGATION" elsewhere herein.

8. EVENT SUBSEQUENT TO JUNE 30, 1969

In July 1969 Buckingham purchased all the capital stock of John V. Elliott Co. for $2,000,000 payable $580,000 in cash and the balance in 4% four year notes payable in equal annual installments. See "History and Business of BHM—Distribution, Regulation and Taxes" elsewhere herein.

9. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

| Item | Charged to: Cost of Sales | Charged to: Other Profit and Loss Accounts | Charged to: Accounts Receivable |
|---|---|---|---|
| **Year ended December 31, 1968:** | | | |
| Maintenance and repairs | — | $ 172 | — |
| Depreciation and amortization of property and equipment | — | 3,637 | — |
| Taxes, other than income taxes: | | | |
| Federal excise taxes, duty, and license fees | $10,941,969 | 500 | — |
| State beverage tax and license fees | — | 7,922 | $55,674 |
| State franchise and other local taxes | — | 16,602(1) | — |
| Payroll taxes | — | 11,917 | — |
| Rents | — | 49,676 | — |
| **Year ended December 31, 1967:** | | | |
| Maintenance and repairs | — | 188 | — |
| Depreciation and amortization of property and equipment | — | 4,338 | — |
| Taxes, other than income taxes: | | | |
| Federal excise taxes, duty, and license fees | 8,391,257 | 309 | — |
| State beverage tax and license fees | — | 5,932 | 15,510 |
| State franchise and other local taxes | — | 5,578(1) | — |
| Payroll taxes | — | 9,312 | — |
| Rents | — | 51,156 | — |

## BHM INDUSTRIES, INC. (Note 1)

### NOTES TO FINANCIAL STATEMENTS—(Concluded)

| Item | Charged to: Cost of Sales | Charged to: Other Profit and Loss Accounts | Charged to: Accounts Receivable |
|---|---|---|---|
| Year ended December 31, 1966: | | | |
| Maintenance and repairs | — | $ 219 | — |
| Depreciation and amortization of property and equipment | — | 7,687 | — |
| Taxes, other than income taxes: | | | |
| Federal excise taxes, duty, and license fees | $ 9,220,137 | 309 | — |
| State beverage tax and license fees | — | 6,550 | $29,033 |
| State franchise and other local taxes | — | 10,264(1) | — |
| Payroll taxes | — | 11,629 | — |
| Rents | — | 50,901 | — |
| Six months ended June 30, 1969: | | | |
| Maintenance and repairs | — | 39 | — |
| Depreciation and amortization of property and equipment | — | 12,294 | — |
| Taxes, other than income taxes: | | | |
| Federal excise taxes, duty, and license fees | 4,731,350 | 282 | — |
| State beverage tax and license fees | — | 4,405 | 39,232 |
| State franchise and other local taxes | — | 10,742(1) | — |
| Payroll taxes | — | 9,631 | — |
| Rents | — | 27,758 | — |

There were no management or service contract fees or royalties.

There were no long-term leases of a significant nature.

Federal excise taxes and duty shown above are the amounts paid on goods withdrawn from bond. To the extent that such tax-paid goods are contained in inventory at the end of each year, a portion of the Federal excise taxes and duty shown above will have been transferred from cost of sales to inventory accounts until such goods are sold. State beverage tax is charged directly to customers' accounts receivable.

(1) Exclusive of State and City taxes on income, provision for which is shown in the statement of consolidated income of BHM.

**EXHIBIT A**

# PLAN AND AGREEMENT OF REORGANIZATION

**PLAN AND AGREEMENT OF REORGANIZATION** dated October 10, 1969, as amended, by and between Schenley Industries, Inc., a Delaware corporation (hereinafter called "Schenley"), and BHM Industries, Inc., a Delaware corporation (hereinafter called "BHM"),

WHEREAS, the Boards of Directors of Schenley and BHM believe that the merger of BHM into Schenley (hereinafter called the "Reorganization" or the "merger") upon the terms and conditions of this Plan and Agreement of Reorganization (hereinafter called the "Agreement") will be in the best interests of said corporations and their respective stockholders,

NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and provisions hereinafter set forth, and for the purpose of defining the terms and conditions of the Reorganization, the parties hereto hereby agree as follows:

**1. The Reorganization.**

1.1. *Execution of Agreements of Merger.* Schenley and BHM have executed an Agreement of Merger dated November 14, 1969 (the "$1.40 Preferred Stock Agreement of Merger") pursuant to which each outstanding share of BHM Common Stock, other than shares owned by Schenley, is to be converted into one share of Schenley $1.40 Cumulative Convertible Preferred Stock and a second Agreement of Merger dated November 14, 1969 (the "Common Stock Agreement of Merger") pursuant to which each outstanding share of BHM Common Stock, other than shares owned by Schenley, is to be converted into nine-tenths of a share of Schenley Common Stock (such agreements are hereinafter collectively called the "Agreements of Merger").

1.2. *Stockholders' Meetings.* Schenley and BHM shall each call separate meetings of their respective stockholders to be held in accordance with the General Corporation Law of the State of Delaware at the earliest practicable date and in any event on or before March 31, 1970 (or such later date as may be approved by the Boards of Directors of both Schenley and BHM), upon due notice thereof to the stockholders of the respective corporations, to consider and vote upon the adoption of this Agreement and the Agreements of Merger.

1.3. *Filing of Agreements of Merger.* (a) The Agreement of Merger to be filed in accordance with Section 1.3(b) hereof shall be selected by Schenley on or prior to the Filing Date (such selection to be made by delivery to BHM of a certificate of an officer of Schenley); provided, however, that Schenley must select the $1.40 Preferred Stock Agreement of Merger if on or prior to the Filing Date Schenley receives a ruling from the Internal Revenue Service to the effect that in determining the voting power of all classes of Schenley capital stock for purposes of §1504(a) of the Internal Revenue Code of 1954, as amended, the voting power of the Schenley $1.40 Preferred Stock is to be considered without regard to the convertibility of such stock.

(b) If this Agreement and the Agreement of Merger selected by Schenley have been adopted by the stockholders of Schenley and BHM at such meetings, upon submission thereof as aforesaid, in accordance with the General Corporation Law of the State of Delaware by the holders of a majority of the outstanding shares of capital stock of the respective corporations entitled to vote thereon and if the Reorganization is not thereafter terminated or abandoned as permitted by the provisions hereof, the Secretary of each of the corporations, under its corporate seal, shall, on the Filing Date (as hereinafter defined in Section 1.3(c) hereof), certify the fact of such adoption upon such Agreement of Merger, and such Agreement of Merger so adopted and certified shall be executed, acknowledged and submitted for filing and recording in accordance with the General Corporation Law of the State of Delaware.

(c) Schenley shall determine the time and date upon which the Agreement of Merger which is to be filed shall be submitted for filing in the State of Delaware, but in no event shall the submission for filing be after March 31, 1970 (or such later date as may be approved by the Chairmen of the Board or the Presidents of both Schenley and BHM). The date of such filing is herein referred to as the "Filing Date".

(d) Schenley shall give BHM adequate notice of the Agreement of Merger to be selected by it under Section 1.3(a) hereof and of the Filing Date to be determined by it so that the Board of Directors of BHM may take any dividend action permitted under Section 3.1(g) hereof by reason of the Agreement of Merger selected and Filing Date determined by Schenley.

**2. Representations and Warranties.**

2.1. *Representations and Warranties of Schenley.*

Schenley represents and warrants to BHM as follows:

(a) *Organization, Good Standing, Capitalization.* Schenley is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted. Schenley has a duly authorized capital stock consisting of 24,000,000 shares, comprising 4,000,000 shares of Cumulative Preference Stock, par value $.35 per share, of which 202,025 shares were issued and outstanding as of June 30, 1969 and 20,000,000 shares of Common Stock, par value $.93⅓ per share, of which 7,804,943 shares were issued and outstanding as of June 30, 1969. All of such issued and outstanding shares have been validly issued and are fully paid and non-assessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or sale or issuance by, Schenley of any shares of its capital stock of any class other than as set forth in Schenley's Annual Report to stockholders for its fiscal year ended August 31, 1968.

(b) *Information.* None of the information with respect to Schenley, its subsidiaries (other than BHM and BHM's subsidiary, The Buckingham Corporation (hereinafter "Buckingham")), affiliates, officers or directors which shall be furnished for inclusion in the proxy soliciting material as mailed to the stockholders of BHM in connection with the meeting of such stockholders to be held in accordance with Section 1.2 hereof shall be false or misleading in any material respect, shall fail to state any facts necessary to make the statements therein not false or misleading in any material respect, or shall omit any material facts required to be stated therein with respect to Schenley, its subsidiaries (other than BHM and Buckingham), affiliates, officers and directors.

(c) *Financial Statements.* The Statements of Consolidated Income of Schenley and its subsidiaries for the five years ended August 31, 1968 and the Statements of Consolidated Retained Earnings and Capital Surplus of Schenley and its subsidiaries for the three years then ended, including in each case the related notes thereto, all certified by Arthur Andersen & Co., independent public accountants, and the Consolidated Balance Sheet of Schenley and its subsidiaries as of December 31, 1968, and the related Statements of Consolidated Income, Retained Earnings and Capital Surplus for the four month period then ended, including in each case the related notes thereto, all certified by Haskins & Sells, independent certified public accountants, and all financial statements of Schenley and its subsidiaries in addition to those referred to above included in the proxy soliciting material referred to in Section 2.1(b) hereof have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year or period and fairly present the financial position as of said date and the results of operations for the periods indicated of Schenley and its subsidiaries, except that no representation is herein made as to the financial statements of BHM and Buckingham included in the foregoing financial statements of Schenley and its subsidiaries.

(d) *Absence of Undisclosed Liabilities.* Except to the extent reflected or reserved against in the financial statements referred to in Section 2.1(c), including the notes thereto, neither Schenley nor any of its subsidiaries (other than BHM and Buckingham), as at December 31, 1968 had any material liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise and whether due or to become due. Schenley does not know or have reasonable grounds to know of any basis for assertion against Schenley or any of its subsidiaries (other than BHM and Buckingham), as of December 31, 1968 of any material claim or liability of any nature

in any amount not fully reflected or reserved against in such financial statements, including the notes thereto, or of any material claim or liability of any nature arising since that date other than those incurred in the ordinary course of business or contemplated hereby or set forth in the proposed proxy soliciting material furnished by Schenley to BHM by separate letter dated the date hereof.

(e) *No Material Adverse Change.* Since December 31, 1968, there has not been (i) any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries (other than BHM and Buckingham), or (ii) any material loss or damage to any of the properties or assets of Schenley and its subsidiaries (other than BHM and Buckingham), whether or not covered by insurance, which materially affects or impairs the ability of Schenley and its subsidiaries to conduct their business, or any labor trouble or any other event or condition of any character which has materially and adversely affected the business of Schenley and its subsidiaries (other than BHM and Buckingham).

(f) *Tax Returns and Payments.* Schenley and its subsidiaries (other than BHM and Buckingham) have duly filed all federal, state and local tax returns and reports required to be filed by them, respectively, and have duly paid or established adequate reserves for the payment of all taxes and other governmental charges upon any of them or any of their respective properties, assets, income, franchises, licenses or sales which are due and payable in accordance with such returns or reports or in accordance with any assessments received by them. The Internal Revenue Service has audited and settled or the statute of limitations has run upon all federal income tax returns of Schenley and its subsidiaries (other than BHM and Buckingham) for all fiscal years ended on or prior to August 31, 1963. The charges, accruals and reserves shown in the financial statements of Schenley and its subsidiaries in respect of federal taxes for all fiscal periods to date are, to the knowledge of Schenley, adequate, and Schenley knows of no material unpaid assessment or proposal by the Internal Revenue Service for additional federal taxes for which it does not have adequate reserves or of any basis therefor for any such fiscal period, except that no representation is herein made in respect of any tax liabilities of BHM and Buckingham.

(g) *Title to Properties and Assets.* Schenley and its subsidiaries (other than BHM and Buckingham) have good and marketable title to all their respective properties and assets, real and personal, including all those reflected as of December 31, 1968 in the financial statements referred to in Section 2.1(c), except those since disposed of in the ordinary course of business, subject to no mortgage, pledge, lien, lease, charge, encumbrance or conditional sale or other title retention agreement except for liens for the payment of federal, state and other liquor taxes not delinquent or subject to penalties and except for imperfections in title, liens or encumbrances, if any, which in the aggregate do not materially affect the financial condition of Schenley and its subsidiaries or materially impair the operations of Schenley and its subsidiaries.

(h) *Trademarks, etc.* Schenley and its subsidiaries (other than BHM and Buckingham) own or possess the right to use all the material trademarks, service marks, trade names, brands, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of their respective businesses as now conducted and as proposed to be conducted, without any known material conflict with the rights of others.

(i) *Litigation, etc.* The proposed proxy soliciting material furnished by Schenley to BHM by separate letter dated the date hereof adequately describes all litigation, proceedings and investigations pending or, to Schenley's knowledge, threatened as of that date in respect of Schenley or any of its subsidiaries (other than BHM or Buckingham) which might result in any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries or which are otherwise required to be described in such proxy soliciting material in respect of Schenley and its subsidiaries (other than BHM and Buckingham).

(j) *Compliance with Other Instruments, etc.* Neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated hereby will conflict with, or

result in any violation of, or constitute a default under any term of the Certificate of Incorporation or By-Laws of Schenley or any material agreement, mortgage, indenture, license, permit, lease or other instrument, judgment, decree, or order by which Schenley or any of its subsidiaries (other than BHM or Buckingham) is bound.

(k) *Governmental Consent, etc.* No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of Schenley is required in connection with the execution or delivery of this Agreement or the consummation of the transactions contemplated hereby other than (i) filing and recording of the Agreement of Merger referred to in Section 1.3(b) hereof with state and local authorities in the State of Delaware in accordance with the General Corporation Law thereof and in other states in which Schenley carries on business, (ii) filings under state securities or "Blue Sky" laws, (iii) filings under the Federal Alcohol Administration Act and under state alcoholic beverage control laws, and (iv) notification to the Federal Trade Commission of the merger contemplated hereby.

2.2. *Representation and Warranties of BHM.*

BHM represents and warrants to Schenley as follows:

(a) *Organization, Good Standing, Capitalization.* BHM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted. BHM has a duly authorized capital stock consisting of 9,000,000 shares of Common Stock, par value $.50 per share, of which 5,800,000 shares are issued and outstanding, including 3,100 shares which were held on June 30, 1969 by former stockholders of Buckingham who have demanded payment for their shares of Class A Common Stock of such corporation pursuant to applicable law. All of such issued and outstanding shares have been validly issued and are fully paid and non-assessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or sale or issuance by, BHM of any shares of its capital stock.

(b) *The Buckingham Corporation.* BHM owns all of the issued and outstanding shares of Buckingham, a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted. All of such issued and outstanding shares of Buckingham have been validly issued and are fully paid and non-assessable with no personal liability attaching to the ownership thereof. There are no outstanding rights, options, warrants, conversion rights or agreements for the purchase or acquisition from, or sale by, Buckingham of any shares of its capital stock.

(c) *Information.* None of the information with respect to BHM, its officers and directors, or Buckingham which shall be furnished for inclusion in the proxy soliciting material as mailed to the stockholders of Schenley in connection with the meeting of such stockholders to be held in accordance with Section 1.2 hereof shall be false or misleading in any material respect, shall fail to state any facts necessary to make the statements therein not false or misleading in any material respect, or shall omit any material facts required to be stated therein with respect to BHM, its officers and directors, and Buckingham.

(d) *Financial Statements.* The Consolidated Balance Sheet of BHM and Buckingham as of December 31, 1968, and the related Statements of Consolidated Income for the five years then ended and Consolidated Retained Earnings for the three years then ended, including in each case the related notes thereto, all certified by Haskins & Sells, independent certified public accountants, and all financial statements of BHM and Buckingham in addition to the above included in the proxy soliciting material referred to in Section 2.2(c) hereof have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the

preceding year or period, and fairly present the financial position as of said date and the results of operations for the periods indicated of BHM and Buckingham.

(e) *Absence of Undisclosed Liabilities.* Except to the extent reflected or reserved against in the financial statements referred to in Section 2.2(d), including the notes thereto, neither BHM nor Buckingham had any material liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise and whether due or to become due. Neither BHM nor Buckingham knows or has reasonable grounds to know of any basis for assertion against BHM or Buckingham as of December 31, 1968 of any material claim or liability of any nature in any amount not fully reflected or reserved against in such financial statements, including the notes thereto, or of any material claim or liability of any nature arising since that date other than those incurred in the ordinary course of business or contemplated hereby or set forth in the proposed proxy soliciting material furnished by BHM to Schenley by separate letter dated the date hereof.

(f) *No Material Adverse Change.* Since December 31, 1968, there has not been (i) any material adverse change in the financial condition, business, prospects, properties, or assets of BHM and Buckingham or (ii) any material loss or damage to any of the properties or assets of BHM and Buckingham (whether or not covered by insurance) which materially affects or impairs the ability of BHM and Buckingham to conduct their business, or any labor trouble or any other event or condition of any character which has materially or adversely affected the business of BHM and Buckingham.

(g) *Tax Returns and Payments.* BHM and Buckingham have duly filed all federal, state and local tax returns and reports required to be filed by them, respectively, and have duly paid or established adequate reserves for the payment of all taxes and other governmental charges upon any of them or any of their respective properties, assets, income, franchises, licenses or sales which are due and payable in accordance with such returns or reports or in accordance with any assessments received by them. The Internal Revenue Service has audited and settled all federal income tax returns of BHM and Buckingham for all fiscal years ended on or prior to December 31, 1966. The charges, accruals and reserves shown in the financial statements of BHM and Buckingham in respect of federal taxes for all fiscal periods to date are, to the knowledge of BHM and Buckingham, adequate, and neither BHM nor Buckingham knows of any material unpaid assessment or proposal by the Internal Revenue Service for additional federal taxes for which it does not have adequate reserves or of any basis therefor for any such fiscal period.

(h) *Title to Properties and Assets.* BHM and Buckingham have good and marketable title to all their respective properties and assets, real and personal, including all those reflected as of December 31, 1968 in the financial statements referred to in Section 2.2(d), except those since disposed of in the ordinary course of business, subject to no mortgage, pledge, lien, lease, charge, encumbrance or conditional sale or other title retention agreement except for liens for the payment of federal, state and other liquor taxes not delinquent or subject to penalties and except for imperfections in title, liens or encumbrances, if any, which in the aggregate do not materially affect the financial condition of BHM and Buckingham or materially impair the operations of BHM and Buckingham.

(i) *Trademarks, etc.* BHM and Buckingham own or possess the right to use all the material trademarks, service marks, trade names, brands, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of their respective businesses as now conducted and as proposed to be conducted, without any known material conflict with the rights of others.

(j) *Litigation, etc.* The proposed proxy soliciting material furnished by BHM to Schenley by separate letter dated the date hereof adequately describes all litigation, proceedings and investigations pending or, to the knowledge of BHM or Buckingham, threatened as of that date which might result in any material adverse change in the financial condition, business, prospects, properties or assets of BHM and Buckingham or which are otherwise required to be described in such proxy soliciting material in respect of BHM and Buckingham.

(k) *Compliance with Other Instruments, etc.* Neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated hereby will conflict with, or result in any violation of, or constitute a default under any term of the Certificate of Incorporation or By-Laws of BHM or any material agreement, mortgage, indenture, license, permit, lease or other instrument, judgment, decree, or order by which BHM or Buckingham is bound.

(l) *Governmental Consent, etc.* No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of BHM is required in connection with the execution or delivery of this Agreement or the consummation of the transactions contemplated hereby other than (i) filing and recording of the Agreement of Merger referred to in Section 1.3(b) hereof with state and local authorities in the State of Delaware in accordance with the General Corporation Law thereof and in other states in which BHM carries on business, (ii) filings under the Federal Alcohol Administration Act and under state alcoholic beverage control laws, and (iii) notification to the Federal Trade Commission of the merger contemplated hereby.

3. **Covenants.**

3.1. *Covenants of BHM.* BHM agrees that, prior to the Filing Date, except with the written consent of Schenley:

(a) BHM will not enter into any transaction out of the ordinary course of its business which, in the opinion of either Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, or Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, is of such materiality as to render materially false or misleading the description of BHM's business and properties in the proposed proxy soliciting material furnished by BHM to Schenley by separate letter dated the date hereof.

(b) BHM will, and will cause Buckingham to, maintain all of its and their respective properties in customary repair, order and condition, reasonable wear and use and damage by fire or other casualty excepted, and will maintain, and will cause Buckingham to maintain, insurance upon all of their properties and with respect to the conduct of their business in such amounts and of such kinds comparable to that in effect on the date of this Agreement.

(c) BHM will maintain its books, accounts and records, and will cause the books, accounts and records of Buckingham to be maintained, in the usual manner, on a basis consistent with prior years. BHM and Buckingham will duly comply in all material respects with all laws and decrees applicable to each of them and to the conduct of their respective businesses.

(d) BHM will give to Schenley and to its counsel, accountants, investment advisers and other representatives full access during normal business hours to all of the properties, books, tax returns, contracts, commitments and records of BHM and Buckingham and will furnish to Schenley all such documents (certified if requested) and information with respect to their affairs as Schenley may from time to time reasonably request.

(e) Neither BHM nor Buckingham will, or will enter into any contract to, merge or consolidate with, or sell all or substantially all of its assets to, any other corporation or change the character of its business.

(f) No increase will be made in the number of shares of BHM Common Stock issued and outstanding on the date hereof, nor will any change be made in the number of shares of capital stock of Buckingham issued and outstanding or in the ownership by BHM of shares of the issued and outstanding capital stock of Buckingham; no option, warrant or any other right to purchase or to convert any obligation into shares of BHM Common Stock or shares of capital stock of Buckingham will be granted or made by BHM or Buckingham.

(g) No dividend or other distribution or payment will be declared, paid or made by BHM in respect of BHM Common Stock other than regular quarterly cash dividends of $.30 per share payable prior to January 1, 1970 to the holders of shares of BHM Common Stock; provided, however, that if Schenley shall select the Common Stock Agreement of Merger under Section 1.3(a) hereof and shall fix the Filing Date after the record date for the payment of the first regular quarterly dividend on Schenley Common Stock in 1970, then before the Filing Date BHM may declare its regular quarterly dividend not exceeding $.30 per share payable to the holders of BHM Common Stock. No purchase, redemption or other acquisition will be made by BHM or Buckingham of any of the outstanding shares of BHM Common Stock, except that Buckingham may purchase shares of BHM Common Stock from its former stockholders who have demanded payment for their shares of Class A Common Stock of Buckingham pursuant to applicable law.

3.2. *Covenants of Schenley.* Schenley agrees that prior to the Filing Date, except with the written consent of BHM (and except that no covenants are made in this Section 3.2 in respect of BHM or Buckingham):

(a) Schenley will not enter into any transaction out of the ordinary course of its business which, in the opinion of either Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, or Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, is of such materiality as to render materially false or misleading the description of Schenley's business and properties in the proposed proxy soliciting material furnished by Schenley to BHM by separate letter dated the date hereof.

(b) Schenley will, and will cause each of its subsidiaries to, maintain all of its and their respective properties in customary repair, order and condition, reasonable wear and use and damage by fire or other casualty excepted and will maintain, and will cause each of its subsidiaries to maintain, insurance upon all of its and their properties and with respect to the conduct of its and their businesses in such amounts and of such kinds comparable to that in effect on the date of this Agreement.

(c) Schenley will maintain its books, accounts and records, and will cause the books, accounts and records of each of its subsidiaries to be maintained, in the usual manner, on a basis consistent with prior years; Schenley and each of its subsidiaries will duly comply in all material respects with all laws and decrees applicable to each of them and to the conduct of their respective businesses.

(d) Schenley will give to BHM and to its special counsel, accountants, investment advisers and other representatives full access during normal business hours to all of the properties, books, tax returns, contracts, commitments and records of Schenley and its subsidiaries and will furnish to BHM all such documents (certified if requested) and information with respect to their affairs as BHM may from time to time reasonably request.

(e) Neither Schenley nor any of its subsidiaries will, or will enter into any contract to, merge or consolidate with, or sell all or substantially all of its assets to, any other corporation or change the character of its business, except that the restrictions of this Section 3.2(e) shall not apply to any transaction which is not of such materiality as to render false or misleading the description of Schenley's business and properties in the proposed proxy soliciting material referred to in Section 3.2(a).

(f) No increase will be made in the number of shares of Schenley Common Stock or Schenley Preference Stock issued or outstanding on the date hereof, otherwise than upon exercise of outstanding employees' stock options and the conversion of outstanding shares of Schenley Preference Stock; no option, warrant, or any other right to purchase or to convert any obligation into shares of Schenley Common Stock or Schenley Preference Stock will be granted or made by Schenley.

(g) No dividend or other distribution or payment will be declared, paid or made by Schenley in respect of shares of Schenley Common Stock or Schenley Preference Stock other than (i) regular quarterly cash dividends of not more than $.35 per share payable to the holders of shares of Schenley Common Stock and (ii) regular semi-annual cash dividends of $.25 per share payable to the holders of shares of Schenley Preference Stock; no purchase, redemption or other acquisition will be made by Schenley of any of its outstanding shares of capital stock.

(h) Schenley will use its best efforts to list on the New York Stock Exchange, upon official notice of issuance, the shares of Schenley stock issuable upon the merger and upon conversion of any Schenley $1.40 Cumulative Convertible Preferred Stock issuable upon the merger, and will further use its best efforts to obtain a quotation on The Stock Exchange, London, for the shares of Schenley stock issuable upon the merger.

(i) Schenley will have amended Article II, Section 1 of its By-Laws to increase the number of its directors to nine and to make certain technical amendments described in a letter of even date herewith from Schenley to BHM. Except for said amendments, Schenley will not make any amendment of its By-Laws as in effect on the date hereof.

4. **Abandonment and Termination.**

4.1. *Schenley Right to Abandon.* Schenley shall have the right to abandon the Reorganization in the event that any of the following shall not be true or shall not have occurred, as the case may be, as of the Filing Date:

(a) *Accuracy of Representations and Warranties.* The representations and warranties of BHM herein contained shall be true on and as of the Filing Date with the same force and effect as though made on and as of the Filing Date, except as affected by transactions contemplated hereby and except that if any such representations and warranties are made as of a specified date, such representations and warranties shall be true on and as of such specified date.

(b) *Performance of Agreements.* BHM shall have performed all obligations and agreements and complied with all covenants contained in this Agreement to be performed and complied with by it prior to the Filing Date.

(c) *Officers' Certificate.* Schenley shall have received a certificate of the Chairman of the Board, the President or any Vice-President of BHM, dated the Filing Date, satisfactory in form and substance to counsel for Schenley, certifying as to the fulfillment of the matters mentioned in paragraphs (a) and (b) of this Section 4.1.

(d) *Opinion of Counsel.* Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, shall deliver to Schenley an opinion or opinions dated the Filing Date, in form and substance satisfactory to Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, to the following effect:

(1) BHM is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on the business being conducted by it as described in the proxy soliciting material referred to in Section 2.2(c);

(2) BHM has corporate power to execute and deliver this Agreement and the Agreements of Merger and has taken all action required by law, its Certificate of Incorporation, By-Laws or otherwise (other than the filing and recording of the Agreement of Merger to be filed in accordance with Section 1.3 hereof), to authorize such execution and delivery and to consummate the Reorganization contemplated hereby, and this Agreement and the Agreements of Merger are valid and binding upon BHM in accordance with their respective terms; and

(3) As to such other matters as Schenley may reasonably request.

(e) *Tax Opinion.* On or before the date on which the definitive proxy material is mailed to the stockholders of Schenley, Schenley shall have received opinions of Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1954, as amended, that no gain or loss will be recognized to BHM as a result of the merger or to the stockholders of BHM whose BHM Common Stock is exchanged for Schenley stock pursuant to the merger, and that the cost basis to the stockholders of BHM of the shares of Schenley stock received by them pursuant to the merger will be the same as the basis for their shares of BHM Common Stock plus the cost of any fractional interest purchased and their holding period for such shares of Schenley stock, other than for any fractional interest purchased, will include their holding period for their shares of BHM Common Stock and of Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, and Messrs. Hanigsberg, Delson & Broser, tax advisers to Schenley, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1954, as amended, and that no gain or loss will be recognized to Schenley or its stockholders as a result of the merger, and opinions of such special counsel to BHM, counsel to Schenley, and tax advisers to Schenley further to the effect that, if Schenley $1.40 Preferred Stock is issued upon the merger, such stock will not constitute Section 306 Stock within the meaning of that section of the Internal Revenue Code of 1954, as amended, except that no opinion need be expressed as to the status of such stock under Section 306 in the hands of holders who also hold Schenley stock on the effective date of the merger.

(f) *Opinion of English Solicitors.* On or before the date on which the definitive proxy material is mailed to the stockholders of Schenley, Schenley shall have received an opinion of Messrs. Herbert Smith & Co., English solicitors to BHM, to the effect that the merger will not constitute a breach of the restrictions on dealing in other products or of any of the other provisions contained in the agreements between Buckingham and Berry Bros. & Rudd Limited, of London, England, under which Buckingham distributes *Cutty Sark* Scotch whisky in the United States; and that Schenley will notwithstanding the merger be free to conduct other business activities so long as those activities do not result in a failure by Buckingham to perform and observe fully its obligations under the agreements.

(g) *Litigation, etc.* Since the date of this Agreement, there shall not have been any change in the status of any existing litigation, proceeding or investigation referred to in Section 2.2(j) (except for changes contemplated by the proposed proxy soliciting material referred to therein), and there shall not have arisen any new pending or threatened litigation, proceeding or investigation, which change in status or new litigation, proceeding, or investigation might result in any material adverse change in the financial condition, business, prospects, properties or assets of BHM and Buckingham.

(h) *Accountants' Letter.* On or before the date on which the definitive proxy soliciting material is mailed to the stockholders of Schenley in connection with the meeting of such stockholders to be held in accordance with Section 1.2 hereof, and on or before the Filing Date, Schenley shall have received a letter from Haskins & Sells, dated respectively as of said mailing date and as of the Filing Date, stating in effect that a reading of the latest available quarterly interim financial statements of BHM and Buckingham, inquiries of officers of BHM and Buckingham responsible for financial and accounting matters, a reading of the minute books of BHM and Buckingham, and other specified procedures and inquiries, if any (which procedures need not constitute an examination in accordance with generally accepted auditing standards), do not cause them to believe that (a) such latest available quarterly interim financial statements of BHM and Buckingham are not fair presentations of the financial information they purport to show or have not been prepared on a basis substantially consistent with the financial statements of BHM and Buckingham examined by Haskins & Sells and included in said definitive proxy material, or that (b) any material adjustments of such unaudited financial statements are required, or that (c) any

adjustments other than normal recurring adjustments have been reflected therein, or that (d) during the period from December 31, 1968 to a specified date not more than five days prior to the date of such letter there was any change in the consolidated capital stock and long term debt of BHM and Buckingham or any material adverse change in the consolidated financial position or consolidated results of operations, in each case, from that set forth by the consolidated financial statements of BHM and Buckingham as of December 31, 1968 and for the year then ended, except in all instances as set forth in or contemplated by the said proxy material.

4.2. *BHM Right to Abandon.* BHM shall have the right to abandon the Reorganization in the event that any of the following shall not be true or shall not have occurred, as the case may be, as of the Filing Date:

(a) *Accuracy of Representations and Warranties.* The representations and warranties of Schenley herein contained shall be true on and as of the Filing Date with the same force and effect as though made on and as of the Filing Date, except as affected by transactions contemplated hereby and except that if any such representations and warranties are made as of a specified date, such representations and warranties shall be true on and as of such specified date.

(b) *Performance of Agreements.* Schenley shall have performed all obligations and agreements and complied with all covenants contained in this Agreement to be performed and complied with by it prior to the Filing Date.

(c) *Officers' Certificate.* BHM shall have received a certificate of the Chairman of the Board, the President or any Vice President of Schenley, dated the Filing Date, satisfactory in form and substance to special counsel for BHM, certifying as to the fulfillment of the matters mentioned in paragraphs (a) and (b) of this Section 4.2.

(d) *Opinion of Counsel.* Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, shall deliver to BHM an opinion or opinions dated the Filing Date, in form and substance satisfactory to Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, to the following effect:

(1) Schenley is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware with all requisite corporate power and authority to own, operate and lease its properties and to carry on the business being conducted by it as described in the proxy soliciting material referred to in Section 2.1(b);

(2) Schenley has corporate power to execute and deliver this Agreement and the Agreements of Merger and has taken all action required by law, its Certificate of Incorporation and By-Laws, or otherwise (other than the filing and recording of the Agreement of Merger to be filed in accordance with Section 1.3 hereof), to authorize such execution and delivery and to consummate the Reorganization contemplated hereby, and this Agreement and the Agreements of Merger are valid and binding upon Schenley in accordance with their respective terms;

(3) Each of the whole shares of Schenley stock into which the shares of BHM Common Stock are to be converted pursuant to the Agreement of Merger to be filed in accordance with Section 1.3 hereof will, upon the merger becoming effective, be a duly authorized, validly issued, outstanding, fully paid and non-assessable share of Schenley stock with no personal liability attaching to the ownership thereof;

(4) No registration under the Securities Act of 1933 is required in connection with the issuance of Schenley stock upon conversion of shares of BHM Common Stock pursuant to the Agreement of Merger to be filed in accordance with Section 1.3 hereof; and

(5) As to such other matters as BHM may reasonably request.

(e) *Listing.* The shares of Schenley Common Stock issuable upon the merger or upon conversion of Schenley $1.40 Cumulative Convertible Preferred Stock, as the case may be,

shall have been duly listed, or approved for listing on official notice of issuance, on the New York Stock Exchange.

(f) *Tax Opinion.* On or before the date on which the definitive proxy material is mailed to the stockholders of BHM, BHM shall have received opinions of Messrs. Strasser, Spiegelberg, Fried & Frank, counsel to Schenley, and Messrs. Hanigsberg, Delson & Broser, tax advisers to Schenley, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1954, as amended, and that no gain or loss will be recognized to Schenley or its stockholders as a result of the merger, and of Messrs. Debevoise, Plimpton, Lyons & Gates, special counsel to BHM, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a)(1) of the Internal Revenue Code of 1954, as amended, that no gain or loss will be recognized to BHM as a result of the merger or to the stockholders of BHM whose BHM Common Stock is exchanged for Schenley stock pursuant to the merger, and that the cost basis to the stockholders of BHM of the shares of Schenley stock received by them pursuant to the merger will be the same as the basis for their shares of BHM Common Stock plus the cost of any fractional interest purchased and their holding period for such shares of Schenley stock, other than for any fractional interest purchased, will include their holding period for their shares of BHM Common Stock, and opinions of such counsel to Schenley, tax advisers to Schenley, and special counsel to BHM further to the effect that, if Schenley $1.40 Preferred Stock is issued upon the merger, such stock will not constitute Section 306 Stock within the meaning of that section of the Internal Revenue Code of 1954, as amended, except that no opinion need be expressed as to the status of such stock under Section 306 in the hands of holders who also hold Schenley stock on the effective date of the merger.

(g) *Quarterly Dividend.* After the date hereof, Schenley's Board of Directors shall have paid regular quarterly dividends of not less than $.35 per share on the outstanding shares of Schenley Common Stock and shall not have expressed its intention to reduce future quarterly dividends on such stock.

(h) *Opinion of English Solicitors.* On or before the date on which the definitive proxy material is mailed to the stockholders of BHM, BHM shall have received an opinion of Messrs. Herbert Smith & Co., English solicitors to BHM, to the effect that the merger will not constitute a breach of the restrictions on dealing in other products or of any of the other provisions contained in the agreements between Buckingham and Berry Bros. & Rudd Limited, of London, England, under which Buckingham distributes *Cutty Sark* Scotch whisky in the United States; and Schenley will notwithstanding the merger be free to conduct other business activities so long as those activities do not result in a failure by Buckingham to perform and observe fully its obligations under the agreements.

(i) *Litigation, etc.* Since the date of this Agreement, there shall not have been any change in the status of any existing litigation, proceeding or investigation referred to in Section 2.1(i) (except for changes contemplated by the proposed proxy soliciting material referred to therein) and there shall not have arisen any new pending or threatened litigation, proceeding or investigation in respect of Schenley or any of its subsidiaries (other than BHM or Buckingham), which change in status or new litigation, proceeding, or investigation might result in any material adverse change in the financial condition, business, prospects, properties or assets of Schenley and its subsidiaries.

(j) *Accountants' Letter.* On or before the date on which the definitive proxy soliciting material is mailed to the stockholders of BHM in connection with the meeting of such stockholders to be held in accordance with Section 1.2 hereof, and on or before the Filing Date, BHM shall have received a letter from Haskins & Sells, dated respectively as of said mailing date and as of the Filing Date, stating in effect that a reading of the latest available quarterly interim financial statements of Schenley and its subsidiaries, inquiries of officers of Schenley responsible for financial and accounting matters, a reading of the minute books of Schenley, and other specified procedures and inquiries, if any (which procedures need not constitute an

examination in accordance with generally accepted auditing standards), do not cause them to believe that (a) such latest available quarterly interim financial statements of Schenley and its subsidiaries are not fair presentations of the financial information they purport to show or have not been prepared on a basis substantially consistent with the financial statements of Schenley and its subsidiaries examined by Haskins & Sells and included in said definitive proxy material, or that (b) any material adjustments of such unaudited financial statements are required, or that (c) any adjustments other than normal recurring adjustments have been reflected therein, or that (d) during the period from December 31, 1968 to a specified date not more than five days prior to the date of such letter there was any change in the consolidated capital stock (except upon conversion of outstanding Schenley Preference Stock or exercise of outstanding options) and long term debt of Schenley and its subsidiaries or any material adverse change in the consolidated financial position or consolidated results of operations, in each case, from that set forth by the consolidated financial statements of Schenley and its subsidiaries as of December 31, 1968 and for the four months then ended, except in all instances as set forth in or contemplated by the said proxy material.

5. **Additional Terms of Abandonment.**

5.1. In addition to the provisions of Article 4 hereof, (a) the merger may be abandoned or terminated before the effectiveness of the merger:

(i) by mutual agreement of the Boards of Directors of Schenley and BHM; or

(ii) by either Schenley or BHM if one of the Agreements of Merger shall not have become effective on or prior to March 31, 1970; and

(b) that Agreement of Merger which is not selected by Schenley pursuant to Section 1.3(a) hereof shall terminate at such time as the Agreement of Merger so selected by Schenley is filed with the Secretary of State of Delaware.

5.2. In the event the merger is abandoned or terminated as provided in clause (a) of Section 5.1 or in Article 4, this Agreement (except Article 6 hereof) and both Agreements of Merger shall forthwith become wholly void and of no effect, and there shall be no liability on the part of either Schenley or BHM or their respective directors, officers or stockholders.

6. **Expenses.**

The Surviving Corporation shall pay all expenses of carrying this Agreement into effect and of accomplishing the merger, including all expenses incident to the prior Agreement of Merger dated July 31, 1969 between the parties hereto, provided, however, that in the event the merger shall not become effective for any reason, each of the parties hereto shall pay its own expenses in connection herewith and in connection with such prior Agreement of Merger, including the fees and expenses of its counsel, advisers, and accountants, except that all printing expenses incident to the negotiations and the preparation for effectiveness of the merger (including the related proxy statements) shall be divided equally between Schenley and BHM.

7. **Miscellaneous.**

7.1. *Certification of Stockholder Votes.* Prior to the Filing Date, (a) BHM shall deliver to Schenley a certificate of its Secretary or Assistant Secretary setting forth the number of shares of its Common Stock outstanding and entitled to vote on the adoption of each of the Agreements of Merger and the number of shares of its Common Stock voted in favor of adoption of such Agreements, and (b) Schenley shall deliver to BHM a certificate of its Secretary or Assistant Secretary setting forth the number of shares of its capital stock outstanding and entitled to vote on the adoption of each of the Agreements of Merger, and the number of shares of its capital stock voted in favor of adoption of such Agreements.

7.2. *Termination of Covenants, Representations and Warranties.* The respective covenants, representations and warranties of the parties hereto contained in Articles 2 and 3 hereof shall expire and be terminated and extinguished upon the effectiveness of the merger, and none of the parties hereto shall

thereafter be under any liability whatsoever with respect to such covenants, representations and warranties. This Section 7.2. shall have no effect upon any other obligation hereunder of any of the parties hereto whether to be performed before or after the effectiveness of the merger.

7.3. *Execution of Counterparts.* For the convenience of the parties, this Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

7.4. *Waivers.* Any failure of either of the parties hereto to comply with any of its obligations, agreements or conditions as set forth herein may be expressly waived in writing by the other Constituent Corporation.

IN WITNESS WHEREOF, this Agreement has been executed by Schenley and BHM, all on the date first above written.

[Signatures omitted]

**EXHIBIT B**

**($1.40 Preferred Stock Agreement of Merger)**

**AGREEMENT OF MERGER,** dated November 14, 1969, by and between SCHENLEY INDUSTRIES, INC., a Delaware corporation (hereinafter called "Schenley"), and BHM INDUSTRIES, INC., a Delaware corporation (hereinafter called "BHM"), Schenley and BHM being hereinafter sometimes called the "Constituent Corporations",

WHEREAS, the authorized capital stock of Schenley consists of 20,000,000 shares of Common Stock, par value $.93⅓ per share (hereinafter called "Schenley Common Stock"), of which 7,804,943 shares were issued and outstanding as of June 30, 1969 and 4,000,000 shares of Cumulative Preference Stock, par value $.35 per share (hereinafter called "Schenley Preference Stock"), of which 202,025 shares were issued and outstanding as of June 30, 1969.

WHEREAS, the authorized capital stock of BHM consists of 9,000,000 shares of Common Stock, par value $.50 per share (hereinafter called "BHM Common Stock"), of which 5,800,000 shares are issued and outstanding, including 3,100 shares which were held on June 30, 1969 by former stockholders of The Buckingham Corporation ("Buckingham") who have demanded payment for their shares of Class A Common Stock of such corporation pursuant to applicable law.

WHEREAS, the respective Boards of Directors of each of the Constituent Corporations deem it advisable and generally to the welfare and advantage of each and of all of the several and respective holders of their shares that the Constituent Corporations merge under and pursuant to Title 8, Chapter 1 of the Delaware Code and the applicable amendments thereof and supplements thereto, known as and hereinafter called the "General Corporation Law of the State of Delaware" and have approved this Agreement of Merger.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, provisions and covenants herein contained, the parties hereto hereby agree in accordance with the General Corporation Law of the State of Delaware that Schenley and BHM shall be, and they hereby are, at the Effective Date (as defined in Section 3 hereof) of this Agreement of Merger, merged into a single corporation existing under the laws of the State of Delaware, to wit, Schenley, one of the Constituent Corporations, which shall be the surviving corporation (such corporation in its capacity as such surviving corporation being hereinafter sometimes called the "Surviving Corporation"), and the parties hereto adopt and agree to the following agreements, terms and conditions relating to said merger and the mode of carrying the same into effect.

1. **Name of Surviving Corporation, Certificate of Incorporation, By-Laws, Directors and Officers.**

1.1. *Name of Surviving Corporation.* The name of the corporation which shall survive the merger is, and after the Effective Date shall continue to be, "SCHENLEY INDUSTRIES, INC.".

1.2. *Certificate of Incorporation.* The Certificate of Incorporation of Schenley, as in effect on the date hereof, shall be further amended by this Agreement of Merger as set forth in Schedule I hereto, and said Certificate of Incorporation as so amended shall from and after the Effective Date be and continue to be the Certificate of Incorporation of the Surviving Corporation until further amended as therein provided.

1.3. *By-Laws.* The By-Laws of Schenley, as in effect on the Effective Date, shall from and after the Effective Date be and continue to be the By-Laws of the Surviving Corporation until amended as provided by law.

1.4. *Directors.* The directors of Schenley on the Effective Date shall be the directors of the Surviving Corporation and shall hold office from the Effective Date until their successors are elected in accordance with law and the By-Laws of the Surviving Corporation and shall have duly qualified.

1.5. *Officers.* The officers of Schenley on the Effective Date shall be the officers of the Surviving Corporation and shall hold their respective offices in Schenley from the Effective Date and until their successors are elected or appointed in accordance with the By-Laws of the Surviving Corporation and shall have duly qualified.

1.6. *Vacancies.* If, on or after the Effective Date, a vacancy shall exist in the Board of Directors or in any of the offices of the Surviving Corporation by reason of death or inability to act, or for any other reason, such vacancy may be filled in the manner provided in the By-Laws of the Surviving Corporation.

2. **Status and Conversion of Securities.**

2.1. *Authorized Capitalization of Surviving Corporation.* The total number of shares of all classes of stock which the Surviving Corporation shall be authorized to issue is twenty-six million, seven hundred forty-five thousand, five hundred fifty (26,745,550) shares, of which four million (4,000,000) shares shall be shares of Cumulative Preference Stock of the par value of thirty-five cents ($.35) per share, amounting in the aggregate to one million four hundred thousand dollars ($1,400,000), two million seven hundred forty-five thousand, five hundred fifty (2,745,550) shares shall be shares of $1.40 Cumulative Convertible Preferred Stock of the par value of one dollar ($1.00) per share, amounting in the aggregate to two million seven hundred forty-five thousand, five hundred fifty dollars ($2,745,550), and twenty million (20,000,000) shares shall be shares of Common Stock of the par value of ninety-three one-third cents ($.93⅓) per share, amounting in the aggregate to eighteen million, six hundred sixty-six thousand, six hundred sixty-six dollars, sixty-six and two-thirds cents ($18,666,666.66⅔).

2.2. *BHM Common Stock.* Each share of BHM Common Stock outstanding and not held by Schenley on the Effective Date shall be converted into one share of Schenley $1.40 Cumulative Convertible Preferred Stock ("Schenley $1.40 Preferred Stock"). All shares of BHM Common Stock held on the Effective Date by Schenley, and the certificates representing the same, shall be cancelled and retired.

2.3. *Surrender and Exchange of BHM Common Stock Certificates.* After the Effective Date, each holder of an outstanding certificate or certificates theretofore representing shares of BHM Common Stock, except those to be cancelled and retired in accordance with Section 2.2, shall surrender such certificate or certificates to Manufacturers Hanover Trust Company or such other bank or trust company as the Surviving Corporation shall designate (hereinafter called the "Exchange Agent"), and shall receive in exchange therefor a certificate or certificates representing the number of shares of Schenley $1.40 Preferred Stock into which the shares of BHM Common Stock theretofore represented by such surrendered certificate or certificates shall have been converted. Until surrendered and exchanged, each outstanding certificate theretofore representing shares of BHM Common Stock shall be deemed for all purposes (other than the payment of dividends or other distributions) to represent the number of shares of Schenley $1.40 Preferred Stock into which the shares theretofore represented thereby shall have been converted. No dividends or other distributions, if any, payable to the holders of record of Schenley $1.40 Preferred Stock as of a record date at or after the Effective Date shall be paid to the holders of such outstanding certificates theretofore representing shares of BHM Common Stock, provided that upon the surrender and exchange of such outstanding certificates theretofore representing shares of BHM Common Stock there shall be paid to the record holder of the certificate or certificates issued in exchange therefor, the amount, without interest thereon, of all such dividends and other distributions, if any, which theretofore have been declared and become payable with respect to the number of shares of Schenley $1.40 Preferred Stock represented thereby.

2.4. *Status of Buckingham Certificates.* For purposes of Section 2.3 "Certificates theretofore representing shares of BHM Common Stock" shall be deemed to include only certificates issued

under the name of BHM and not certificates for shares of Class A Common Stock of Buckingham ("Buckingham Certificates") issued under the name of such corporation, which certificates were deemed for all purposes (other than the payment of dividends or other distributions having a record date after June 15, 1969) to represent shares of BHM Common Stock pursuant to that certain Agreement of Merger dated as of March 24, 1969, as amended, by and between BHM Subsidiary, Inc. and Buckingham which was filed with the Secretary of State of the State of Delaware and became effective on May 15, 1969. After the Effective Date, Buckingham Certificates shall be deemed for all purposes (other than the payment of such dividends and other distributions) to represent the number of shares of Schenley $1.40 Preferred Stock into and for which the shares of BHM Common Stock represented thereby shall have been converted, but nothing in this Section 2.4 shall be deemed to waive the requirement of the exchange of Buckingham Certificates for certificates representing shares of BHM Common Stock pursuant to the aforesaid Agreement of Merger by and between BHM Subsidiary, Inc. and Buckingham.

2.5. *Schenley Capital Stock.* The shares of Schenley Common Stock and Schenley Preference Stock outstanding or held by Schenley as treasury stock on the Effective Date shall continue as shares of Schenley Common Stock and Schenley Preference Stock, respectively.

2.6. *Schenley Stock Options.* All options to purchase shares of Schenley Common Stock under the Schenley Employees' Share Purchase Plan heretofore granted shall continue in effect without change.

**3. Effective Date.**

This Agreement shall become effective at the time and on the date when this Agreement duly adopted, certified, executed and acknowledged has been filed in accordance with Section 103(c) of the General Corporation Law of the State of Delaware. The time and date of such effectiveness is referred to herein as the "Effective Date".

**4. Certain Effects of the Merger.**

When the merger shall have become effective, the separate existence of BHM shall cease and the Constituent Corporations shall be merged into Schenley which as the Surviving Corporation shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature, and be subject to all the restrictions, disabilities and duties of each of the Constituent Corporations; and all and singular, the rights, privileges, powers and franchises of each of the Constituent Corporations, and all property, real, personal and mixed, and all debts due to either of the Constituent Corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to either of such corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise, under the laws of Delaware or any other state, in any of the Constituent Corporations, shall not revert or be in any way impaired; but all rights of creditors and all liens upon any property of any of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities and duties of the Constituent Corporations shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. At any time, or from time to time, after the Effective Date, the last acting officers of BHM, or the corresponding officers of the Surviving Corporation, may, in the name of BHM execute and deliver all such proper deeds, assignments, and other instruments and take or cause to be taken all such further or other action as the Surviving Corporation may deem necessary or desirable in order to vest, perfect, or confirm in the Surviving Corporation title to and possession of all of BHM's property, rights, privileges, powers, franchises, immunities, and interests and otherwise to carry out the purposes of this Agreement.

**5. Termination, Amendments, Supplements, Etc.**

5.1. *Termination.* Prior to the filing hereof in accordance with the General Corporation Law of the State of Delaware, this agreement shall be terminable and terminate in accordance with the provisions of the Plan and Agreement of Reorganization dated of even date herewith by and between Schenley and BHM.

5.2. *Amendments, Supplements, Etc.* At any time whether before or after submission to, or adoption by, the respective stockholders of the Constituent Corporations, this Agreement may be amended in matters of form, or supplemented by additional agreements, articles or certificates, as may be determined in the judgment of the Boards of Directors of the Constituent Corporations to be necessary, desirable, or expedient to clarify the intention of the parties hereto or to effect or facilitate the filing, recording or official approval of this Agreement and the consummation hereof and the merger provided for herein, in accordance with the purpose and intent of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by each of the Constituent Corporations, by its Chairman of the Board or its President or a Vice President and attested by the Secretary or an Assistant Secretary of each of the Constituent Corporations under its corporate seal, all on the date first above written.

[Signatures omitted]

**SCHEDULE I**

The Certificate of Incorporation of Schenley Industries, Inc., shall be, and hereby is, amended:

**(a) By changing the initial paragraph of Article Fourth to read in its entirety as follows:**

"FOURTH: The total number of shares of all classes of stock which the Corporation shall be authorized to issue is twenty-six million seven hundred forty-five thousand, five hundred fifty (26,745,550) shares, of which four million (4,000,000) shares shall be shares of Cumulative Preference Stock of the par value of thirty-five ($.35) cents per share, amounting in the aggregate to one million four hundred thousand ($1,400,000) dollars, two million seven hundred forty-five thousand, five hundred fifty (2,745,550) shares shall be shares of $1.40 Cumulative Convertible Preferred Stock of the par value of one dollar ($1.00) per share, amounting in the aggregate to two million seven hundred forty-five thousand, five hundred fifty dollars ($2,745,550), and twenty million (20,000,000) shares shall be shares of Common Stock of the par value of ninety-three and one-third cents ($.93⅓) per share, amounting in the aggregate to eighteen million, six hundred sixty-six thousand, six hundred sixty-six dollars, sixty-six and two-thirds cents ($18,666,666.66⅔)."

**(b) by deleting in its entirety subparagraph (j) of Article Fourth and substituting therefor the following new subparagraph (j) to read as follows:**

"(j) The holders of Common Stock shall have no preemptive or preferential right to subscribe for or purchase any shares of Cumulative Preference Stock, Common Stock, or other class of capital stock of the Corporation or any security convertible into such stock."

**(c) By adding the following provisions at the end of Article Fourth:**

"The voting powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, applicable to the $1.40 Cumulative Convertible Preferred Stock are as follows:

1.01. (a) Holders of shares of $1.40 Cumulative Convertible Preferred Stock (herein referred to as "$1.40 Preferred Stock") shall be entitled to receive, when and as declared by the Board of Directors, out of funds available for the payment of dividends thereon, preferential cumulative dividends at the rate of $1.40 per share per annum, and no more, payable in cash quarterly on the tenth day of February, May, August and November in each year (such days being hereinafter referred to as "quarterly dividend dates" and the periods commencing on the day after each quarterly dividend date and ending on the next succeeding quarterly dividend date being hereinafter referred to as "quarterly dividend periods"), commencing on the quarterly dividend date next succeeding the date of issuance of such shares; provided, however, that the payment of the first of such quarterly dividends may be postponed for a period not to exceed forty-five (45) days in the discretion of the Board of Directors as expressed by a resolution of such Board. Cash dividends upon shares of $1.40 Preferred Stock shall commence to accrue and shall be cumulative from November 10, 1969.

(b) The $1.40 Preferred Stock shall rank in respect of dividends (i) in priority to the Common Stock and (ii) junior to the Cumulative Preference Stock. So long as any shares of $1.40 Preferred Stock shall be outstanding, the Corporation shall not, directly or indirectly (through any subsidiary or otherwise), declare or pay or set apart for payment any dividends (other than dividends payable solely in shares of Common Stock and one cash dividend on the Common Stock not in excess of $.35 per share payable in February 1970) on shares of Common Stock or any other class of stock ranking junior to the $1.40 Preferred Stock in respect of dividends or make any other distribution in respect of Common Stock or such other stock or any payment on account of the redemption, purchase or other acquisition of

Common Stock or such other stock unless, at the date of such payment or setting apart or such distribution or other payment, full cumulative dividends on the then outstanding shares of $1.40 Preferred Stock for all past quarterly dividend periods shall have been declared and paid and full cumulative dividends for the current quarterly period shall have been declared and paid or declared and set apart for payment.

1.02. (a) $1.40 Preferred Stock shall be redeemable in whole or in part pro rata or by lot, at the option of the Corporation expressed by a resolution of its Board of Directors, at any time and from time to time, on or after March 1, 1971 or the expiration of fourteen (14) months after the first issuance of $1.40 Preferred Stock, whichever is later, at a redemption price per share equal to $24 plus an amount equal to full cumulative dividends thereon up to the date fixed for redemption (the "redemption price").

(b) If upon any such redemption less than all the then outstanding shares of $1.40 Preferred Stock are to be redeemed, such redemption shall be of whole shares pro rata or by lot among all then outstanding shares of $1.40 Preferred Stock, and the Board of Directors shall from time to time have full authority and power to prescribe the manner in which the drawings shall be conducted, if by lot, and the terms and conditions upon which the shares of $1.40 Preferred Stock shall be so redeemed.

(c) Notice of every redemption of shares of $1.40 Preferred Stock in form approved by the Board of Directors shall be given by mailing such notice, postage prepaid, not less than 45 nor more than 60 days prior to the date fixed for such redemption to each holder of record of shares so to be redeemed at his address as the same shall appear on the books of the Corporation. Each such notice (i) shall specify the date fixed for redemption, the redemption price, the number of shares to be redeemed if less than all of those held by such holder are to be redeemed, and the place where payment of the redemption price is to be made upon surrender for cancellation of the certificates representing shares called for redemption, (ii) shall state that the right to convert the shares so to be redeemed will terminate at the close of business on the last business day (specifying the same) falling not less than three (3) days prior to the date fixed for redemption unless default shall be made in the payment of the redemption price, (iii) shall state the applicable conversion rate and (iv) shall state that dividends on the shares to be redeemed shall cease to accrue on and after the redemption date. Failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the proceedings for such redemption except as to the holder to whom the Corporation has failed to mail said notice or except as to the holder whose notice was defective. Any notice which was mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the holder receives the notice.

(d) At any time after notice of redemption shall have been duly given as above provided, the Corporation may deposit the aggregate redemption price in trust with a bank or trust company doing business in the Borough of Manhattan, The City of New York, State of New York, and having a capital, surplus and undivided profits aggregating at least $15,000,000, named in such notice, for payment on or before the date fixed for redemption in respect of the shares called for redemption. Such deposit of funds shall not relieve the Corporation of its obligation to pay the redemption price when due if, for any reason, such bank or trust company shall not make such payment of the redemption price. Any interest accrued on funds which are deposited as aforesaid shall be paid to the Corporation from time to time and the holders of shares to be redeemed shall have no claim to any such interest. Any funds so deposited which shall not be required for redemption because of the exercise of any right of conversion subsequent to the date of the deposit shall be repayable to the Corporation forthwith. Any funds so deposited and unclaimed at the end of 6 years from the date fixed for redemption shall be repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment of the amounts to which they are entitled under paragraph (a) of this Section 1.02.

(e) If notice of redemption shall have been duly given as hereinabove provided, then on the making of such deposit or, if no such deposit shall have been made, on and after the date fixed for redemption (unless the Corporation shall default in making payment of the redemption price) all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares, including, but not limited to, the right to receive dividends thereon, shall cease and terminate notwithstanding that any certificate for such shares so called for redemption shall not have been surrendered for cancellation, and the holders of such shares so called for redemption shall cease to be stockholders in respect thereof and shall have no interest or claim against the Corporation, except the right to receive the redemption price, without interest, upon surrender of their certificates for cancellation and to exercise any privilege of conversion not theretofore expiring.

(f) In order to facilitate the redemption of any shares of $1.40 Preferred Stock the Board of Directors is authorized to cause the transfer books of the Corporation to be closed from time to time as of the close of business on the last business day falling not less than three (3) days prior to the date fixed for redemption, as to the shares to be redeemed.

1.03. The amount payable on shares of $1.40 Preferred Stock in the event of a voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation shall be $24 per share, plus an amount equal to full cumulative dividends thereon to the date when such amount shall be made available to the holders thereof, and no more.

In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation and all amounts receivable by the holders of shares of Cumulative Preference Stock upon such dissolution, liquidation or winding up, the holders of all the outstanding shares of $1.40 Preferred Stock shall be entitled to receive, out of the net assets of the Corporation, an amount in cash per share equal to the amount fixed and determined by this Section 1.03, and no more, before any distribution shall be made to the holders of shares of Common Stock or any other stock ranking junior to the $1.40 Preferred Stock in respect of distributions on dissolution, liquidation or winding up. If upon any dissolution, liquidation or winding up of the affairs of the Corporation the net assets available for distribution to the holders of shares of $1.40 Preferred Stock shall be insufficient to pay the holders of all the outstanding shares of $1.40 Preferred Stock the full amounts to which they respectively shall be entitled, the holders of such shares shall share in any distribution of assets in proportion to the amounts respectively due to them on a payment in full.

Neither the merger nor the consolidation of the Corporation, nor the sale, lease or conveyance of all or part of its property and business as an entirety, shall be deemed to be a liquidation, dissolution or winding up of the affairs of the Corporation within the meaning of this Section 1.03.

1.04. (a) The holders of shares of $1.40 Preferred Stock shall have the right, at their option, to convert such shares into shares of Common Stock at any time at the rate of nine-tenths (9/10) of a share of Common Stock for each one (1) share of $1.40 Preferred Stock in accordance with and subject to the terms and conditions of this Section 1.04; provided, however, that, in case of the call for redemption of any shares of $1.40 Preferred Stock such right of conversion shall cease and terminate, as to the shares called for redemption, at the close of business on the last business day falling not less than three (3) days prior to the date fixed for such redemption unless default shall be made in the payment of the redemption price.

(b) The shares of $1.40 Preferred Stock shall be convertible at the office of any Transfer Agent for such shares (or such other place as may be designated by the Corporation) into fully paid and non-assessable shares of Common Stock at the rate herein specified without payment or adjustment for any dividends accrued on the shares of $1.40 Preferred Stock surrendered for conversion, except that the amount of full cumulative dividends

on such shares up to the dividend payment date immediately preceding such surrender for conversion shall constitute a debt of the Corporation payable without interest to the converting stockholder, and the Corporation shall not, directly or indirectly (through any subsidiary or otherwise), declare or pay or set apart for payment any dividends on shares of Common Stock or any other class of stock ranking junior to the $1.40 Preferred Stock in respect of dividends or make any other distribution in respect of Common Stock or such other stock or any payment on account of the redemption, purchase or other acquisition of Common Stock or such other stock until such debt shall be fully paid or sufficient funds set apart for the payment thereof.

(c) In order to convert shares of $1.40 Preferred Stock into shares of Common Stock, the holder thereof shall surrender the certificate or certificates representing such stock, duly endorsed to the Corporation or in blank, at the office of any Transfer Agent for such shares (or such other place as may be designated by the Corporation), and shall give written notice to the Corporation at said office that he elects to convert the same and shall state in writing therein the name or names in which he wishes the certificate or certificates representing shares of Common Stock to be issued. The Corporation will, as soon as practicable thereafter, deliver at said office to such holder of shares of $1.40 Preferred Stock, or to his nominee or nominees, a certificate or certificates for the number of whole shares of Common Stock to which he shall be entitled as aforesaid. Shares of $1.40 Preferred Stock shall be deemed to have been converted as of the date of the surrender of such shares for conversion as provided above, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date, and each such share of Common Stock shall be deemed outstanding on such date.

(d) The issuance of certificates for shares of Common Stock shall be made without charge to the converting stockholder for any tax in respect of the issuance of such certificates; provided, however, that the Corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate representing shares of Common Stock in a name other than that of the holder of the $1.40 Preferred Stock so converted, and the Corporation shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(e) The conversion rate provided herein shall be subject to the following adjustments:

(i) In case the Corporation shall (w) declare a dividend on its Common Stock payable in shares of its capital stock, (x) subdivide its outstanding Common Stock, (y) combine its outstanding Common Stock into a smaller number of shares, or (z) issue by reclassification of its Common Stock (including any such reclassification in connection with a consolidation or merger in which the Corporation is the continuing corporation) any shares of the Corporation, the conversion rate in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the holder of any shares of $1.40 Preferred Stock surrendered for conversion after such time shall be entitled to receive the number and kind of shares which he would have owned or have been entitled to receive had such shares of $1.40 Preferred Stock been converted immediately prior to such time. Such adjustment shall be made successively whenever any event listed above shall occur.

(ii) In case the Corporation shall fix a record date for the issuance of rights or warrants to all holders of its Common Stock entitling them (for a period expiring within 90 days after such record date) to subscribe for or purchase Common Stock at a price per share less than the current market price per share of Common Stock (as defined in Clause (v) of this paragraph (e)) on such record date, the number of shares of Common Stock into which each share of $1.40 Preferred Stock shall be convertible

after such record date shall be determined by multiplying the number of shares of Common Stock into which each such share of $1.40 Preferred Stock was convertible immediately prior to such record date by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered by subscription or for purchase, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares so offered would purchase at such current market price. Such adjustment shall become effective on such record date and shall be made successively whenever such a record date is fixed; provided, however, in the event that such rights or warrants are not so issued, the conversion rate shall again be adjusted to be the conversion rate which would then be in effect if such record date had not been fixed, and provided, further, that upon the expiration of such rights or warrants, if any thereof shall not have been exercised, the conversion rate shall forthwith be readjusted and thereafter be the rate which it would have been had an adjustment been made on the basis that (x) the only shares of Common Stock so offered by subscription or for purchase were those issued or sold upon the exercise of such rights or warrants and (y) they were offered for the consideration actually received by the Corporation upon such exercise.

(iii) In case the Corporation shall fix a record date for the issuance of rights or warrants to all holders of its Common Stock entitling them (for a period expiring within 90 days after such record date) to subscribe for or purchase securities convertible, within one year from date of issue, solely into Common Stock at an initial conversion price per share (i.e. the aggregate subscription or purchase price for such convertible securities plus the aggregate additional consideration, if any, initially payable upon conversion thereof, divided by the total number of shares of Common Stock initially issuable upon conversion of such convertible securities) less than the current market price per share of Common Stock (as defined in Clause (v) of this paragraph (e)) on such record date, the number of shares of Common Stock into which each share of $1.40 Preferred Stock shall be convertible after such record date shall be determined by multiplying the number of shares of Common Stock into which each such share of $1.40 Preferred Stock was convertible immediately prior to such record date by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock initially issuable upon conversion of the convertible securities offered by subscription or for purchase, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate conversion price of the total number of shares initially issuable upon conversion of the convertible securities so offered would purchase at such current market price. Such adjustment shall become effective on such record date and shall be made successively whenever such a record date is fixed; provided, however, in the event that such rights or warrants are not so issued, the conversion rate shall again be adjusted to be the conversion rate which would then be in effect if such record date had not been fixed, and provided, further, that upon the expiration of such rights or warrants, if any thereof shall not have been exercised, the conversion rate shall forthwith be readjusted and thereafter be the rate which it would have been had an adjustment been made on the basis that (x) the number of additional shares of Common Stock initially issuable upon conversion of the convertible securities offered by subscription or for purchase were those so issuable upon conversion of the convertible securities actually issued or sold upon the exercise of such rights or warrants and (y) the aggregate conversion price of such additional shares of Common Stock was the consideration actually received by the Corporation upon such exercise plus the aggregate additional consideration, if any, initially payable upon conversion of such convertible securities, and, provided further, that if such convertible securities shall by their terms provide for a change with the passage of time or otherwise in the conversion price thereof, the

conversion rate shall forthwith upon any such change becoming effective, be readjusted (but, in the case of an increase, to no greater extent than originally adjusted) to reflect the same, and provided further, that upon the expiration or termination of the conversion rights under said convertible securities, if any such conversion rights shall not have been exercised, the conversion rate shall forthwith be readjusted and thereafter be the rate which it would have been had an adjustment been made on the basis that (x) the number of additional shares of Common Stock initially issuable upon conversion of the convertible securities offered by subscription or for purchase were those actually issued upon exercise of such conversion rights, and (y) the aggregate conversion price of such additional shares of Common Stock was the aggregate subscription or purchase price for the convertible securities actually converted plus the aggregate additional consideration, if any, received upon conversion thereof.

(iv) In case the Corporation shall fix a record date for the making of a distribution to all holders of its Common Stock (including any such distribution made in connection with a consolidation or merger in which the Corporation is the continuing corporation) of evidences of its indebtedness or assets (excluding dividends paid in, or distributions of, cash out of assets available therefor under applicable law) or subscription rights or warrants (excluding those referred to in Clauses (ii) and (iii) of this paragraph (e)), the number of shares of Common Stock into which each share of $1.40 Preferred Stock shall be convertible after such record date shall be determined by multiplying the number of shares of Common Stock into which each such share of $1.40 Preferred Stock was convertible immediately prior to such record date by a fraction, of which the numerator shall be the current market price per share of Common Stock (as defined in Clause (v) of this paragraph (e)) on such record date, and of which the denominator shall be such current market price per share of Common Stock, less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive, and described in a statement filed with each office or agency maintained by the Corporation for conversion) of the portion of the evidences of indebtedness or assets so distributed or of such subscription rights or warrants applicable to one share of Common Stock. Such adjustment shall become effective on such record date and shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the conversion rate shall again be adjusted to be the conversion rate which would then be in effect if such record date had not been fixed.

(v) For the purpose of any computation under Clauses (ii), (iii) and (iv) of this paragraph (e) the current market price per share of Common Stock on any record date shall be deemed to be the average of the daily closing prices for the 30 consecutive business days commencing 45 business days before such date. The closing price for each day shall be the last sale price regular way or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way, in either case on the New York Stock Exchange, or, if the Common Stock is not listed or admitted to, or is suspended from, trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to, and not suspended from, trading, or if it is not listed or admitted to trading on any national securities exchange, or is suspended from trading on all such exchanges, on which it is listed or admitted to trading, the average of the closing bid and asked prices as furnished by any member of the National Association of Securities Dealers, Inc. selected from time to time by the Corporation for that purpose.

(vi) No adjustment in the conversion rate shall be required unless such adjustment would require an increase or decrease of at least 1% in such rate; provided, however, that any adjustments which by reason of this Clause (vi) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this paragraph (e) shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

(vii) Whenever the conversion rate is adjusted, as herein provided, the Corporation shall promptly file with each office or agency maintained by the Corporation for the conversion of $1.40 Preferred Stock, a certificate of a firm of independent public accountants selected by the Board of Directors (who may be the regular accountants employed by the Corporation) setting forth the conversion rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment and a computation thereof. Such certificate shall be conclusive evidence of the correctness of such adjustment. No office or agency maintained by the Corporation for conversion shall be under any duty or responsibility with respect to any certificate or any facts set forth therein, except to exhibit said certificate from time to time to any holder of $1.40 Preferred Stock desiring to inspect the same. The Corporation shall promptly cause a notice setting forth the adjusted conversion rate to be mailed to the holders of $1.40 Preferred Stock at their last addresses as they shall appear upon the books of the Corporation.

(viii) In the event that at any time, as a result of an adjustment made pursuant to Clause (i) of this paragraph (e), the holder of $1.40 Preferred Stock thereafter surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the number of such other shares so receivable upon conversion of any shares of $1.40 Preferred Stock shall be subject to adjustment from to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in Clauses (i) to (vii), inclusive, of this paragraph (e), and the provisions of this Section 1.04 with respect to the Common Stock shall apply on like terms to any such other shares.

(f) No fractional shares of Common Stock shall be issued upon conversions of $1.40 Preferred Stock. If more than one share of $1.40 Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of $1.40 Preferred Stock so surrendered. In lieu of issuing any fractional share, the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to the same fraction of the closing price per share of Common Stock on the business day next preceding the day of conversion (such closing price to be determined in accordance with Clause (v) of paragraph (e)).

(g) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of $1.40 Preferred Stock, the full number of whole shares of Common Stock then deliverable upon the conversion of all shares of $1.40 Preferred Stock at the time outstanding.

1.05. (a) Each holder of shares of $1.40 Preferred Stock shall be entitled to attend all special and annual meetings of the stockholders of the Corporation and thereat, except as provided in paragraph (b) hereof, share for share and without regard to classes, together with the holders of all other classes of stock entitled to attend such meetings, to cast one-tenth of a vote for each share registered in his name, voting together with the shares of Common Stock and not separately as a class, upon any matter (including without limitation the election of directors) acted upon at such meetings; provided, however, that at any time when the holders of $1.40 Preferred Stock shall be entitled to elect $1.40 Preferred Stock Directors pursuant to Section 1.06 hereof, they shall not be entitled to vote for the election of any directors other than the $1.40 Preferred Stock Directors.

(b) Notwithstanding anything contained to the contrary in paragraph (a) above, if the holders of shares of $1.40 Preferred Stock shall be required by statute to have, regardless of any provision of this Certificate to the contrary, or shall be entitled by any express provision of this Certificate to, a full vote per share on any matter or thing to be acted upon at any annual or special meeting of the stockholders of the Corporation, such right shall be substituted for the right provided in said paragraph (a). Except where expressly required by statute or by this Certificate of Incorporation to vote as a separate class, the holders of the

$1.40 Preferred Stock shall be entitled to vote only together with the shares of Common Stock and not separately as a class.

1.06. (a) If and when dividends payable on the shares of $1.40 Preferred Stock shall be in arrears in an amount equivalent to six (6) full quarterly dividends, whether or not consecutive, the holders of the outstanding shares of $1.40 Preferred Stock, voting separately as a class, shall be entitled, at any annual meeting of stockholders or special meeting held in place thereof, or at a special meeting of the holders of shares of $1.40 Preferred Stock called as hereinafter provided, and at all annual meetings thereafter at which directors shall be elected, to elect two (2) directors (the "$1.40 Preferred Stock Directors").

Such right of the holders of shares of $1.40 Preferred Stock to elect $1.40 Preferred Stock Directors may be exercised until dividends in arrears on the outstanding shares held by the holders of shares of $1.40 Preferred Stock shall have been declared and either paid in full or funds sufficient therefor have been set apart for payment; and, when so paid or provided for, then the right of the holders of shares of $1.40 Preferred Stock to elect such $1.40 Preferred Stock Directors shall cease and be forthwith divested, but subject always to the same provisions for the vesting of such voting rights in a case of any future dividend default or defaults.

At any time after such voting power shall have so vested in the holders of shares of $1.40 Preferred Stock, the Secretary of the Corporation may, and upon the written request of the holders of record of ten percent (10%) or more of the total of the shares of $1.40 Preferred Stock then outstanding addressed to him at the principal office of the Corporation, shall, call a special meeting in accordance with paragraph (e) of this Section 1.06 of the holders of shares of $1.40 Preferred Stock for the election of the $1.40 Preferred Stock Directors to be elected by them as herein provided. If at any such annual or special meeting or any adjournment thereof the holders of more than fifty percent (50%) of the total of the shares of $1.40 Preferred Stock then outstanding shall be present or represented by proxy, then, by vote of the holders of more than fifty percent (50%) of the total of the shares of $1.40 Preferred Stock present or so represented at such meeting, the then authorized number of directors of the Corporation shall be increased by two (2), and the holders of shares of $1.40 Preferred Stock shall be entitled by a like vote to elect the additional directors so provided for.

(b) At any meeting or adjournment thereof, the absence of a quorum of the holders of any other class of stock entitled to vote for directors shall not prevent the election of the directors to be elected by the holders of shares of $1.40 Preferred Stock and the absence of a quorum of the holders of shares of $1.40 Preferred Stock shall not prevent the election of directors to be elected by any other class of stock. In the absence of such quorum of any class of stock of the Corporation then entitled to elect directors at such meeting, the directors duly elected as aforesaid by the holders of other classes of stock of the Corporation shall elect directors to serve in the place and stead of the directors to be otherwise elected by the class of stock so lacking a quorum, and in such event such directors so elected shall serve until the election and qualification of their successors.

In the event that any class of stock of the Corporation entitled to vote for directors pursuant to the foregoing shall fail to elect such directors by reason of the absence of a quorum of such stockholders at a meeting called for the purpose, and if in such case directors duly elected by the holders of any other class of stock shall fill such vacancies, the directors so elected to fill such vacancies shall be deemed to have been elected by the holders of the class of stock who were entitled but failed to elect the same and shall be removable by them in accordance with paragraph (d) below and the By-Laws of the Corporation.

Whenever the holders of shares of $1.40 Preferred Stock shall be divested of power to elect directors as above provided, the term of office of the persons elected as $1.40 Preferred Stock Directors shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly.

(c) If, while the holders of shares of $1.40 Preferred Stock are entitled to elect $1.40 Preferred Stock Directors,

(i) one of the $1.40 Preferred Stock Directors shall resign, die or be removed, the remaining one shall designate a successor to fill the vacancy thereby created;

(ii) both of the $1.40 Preferred Stock Directors shall resign, die or be removed, a majority of the directors then in office though less than a quorum shall designate the successors to fill the vacancies thereby created;

provided, however, that if a successor or successors shall not be designated to fill the vacancy or vacancies created by the resignation, death or removal of one or both of the $1.40 Preferred Stock Directors as hereinabove in paragraph (c) (i) or (c) (ii) provided within forty (40) days after the creation of such vacancy or vacancies, the Secretary of the Corporation shall, upon the written request of the holders of record of ten percent (10%) or more of the total of the shares of $1.40 Preferred Stock then outstanding addressed to him at the principal office of the Corporation, call a special meeting in accordance with paragraph (e) of this Section 1.06 of the holders of shares of $1.40 Preferred Stock to fill such vacancy or vacancies.

(d) Any $1.40 Preferred Stock Director may be removed from office without cause by vote of the holders of a majority of the total of the outstanding shares of the holders of shares of $1.40 Preferred Stock at a special meeting of the holders of shares of $1.40 Preferred Stock called for the purpose of removing such Director. Upon the written request of the holders of record of twenty (20%) percent or more of the total of the shares of $1.40 Preferred Stock then outstanding addressed to him at the principal office of the Corporation, the Secretary of the Corporation shall call a special meeting in accordance with paragraph (e) of this Section 1.06 of the holders of shares of $1.40 Preferred Stock for such purpose.

(e) Any meeting of the holders of shares of $1.40 Preferred Stock to be called by the Secretary of the Corporation pursuant to this Section 1.06 shall be called within ten (10) days after delivery to the Secretary of the requisite request therefor and shall be held within forty (40) days after delivery of such request and at the place and upon the notice provided by law and in the By-Laws for the holding of meetings of stockholders; provided, however, that the Secretary shall not be required to call such special meeting in the case of any such request received less than ninety (90) days before the earliest date fixed in the By-Laws for the next ensuing annual meeting of stockholders, and provided further that no such special meeting shall be called for a date less than thirty (30) days before any date previously fixed by proper notice on which an annual meeting of the stockholders or special meeting is to be held.

1.07. So long as any shares of $1.40 Preferred Stock shall be outstanding, the Corporation shall not amend its Certificate of Incorporation to authorize any additional shares of $1.40 Preferred Stock or any shares of any series or class of stock ranking on a parity with or prior to the $1.40 Preferred Stock, either in respect of dividends or in respect of distributions on dissolution, liquidation or winding up, or to alter or change the powers, preferences, or special rights of the $1.40 Preferred Stock so as to affect adversely the $1.40 Preferred Stock, without the affirmative vote or written consent as a class of the holders of at least two-thirds of the aggregate number of shares of $1.40 Preferred Stock then outstanding.

1.08. The holders of $1.40 Preferred Stock shall have no preemptive or preferential right to subscribe for or purchase any shares of any class of capital stock of the Corporation or any security convertible into such stock.

1.09. If the Corporation shall merge or consolidate with or into any other corporation in a transaction in which the Corporation is not the continuing corporation, or if the Corporation shall sell all or substantially all of its assets in exchange for securities of another corporation and then liquidate, and if in any such transaction the $1.40 Preferred

Stock shall be converted into or exchanged for securities of the same class as the Common Stock (disregarding any Common Stock which is cancelled and not converted into or exchanged for any other securities) is converted into or exchanged for in such transaction, then each share of $1.40 Preferred Stock shall be converted into or exchanged for the same number or amount of such securities as it would have been converted into or exchanged for had such share of $1.40 Preferred Stock been converted pursuant to Section 1.04 hereof immediately prior to such transaction; provided, however, that this Section 1.09 shall not be applicable to any transaction which becomes effective prior to July 1, 1970 or the expiration of six (6) months after the first issuance of $1.40 Preferred Stock, whichever is later.

1.10. Prior to March 1, 1971 or the expiration of fourteen (14) months after the first issuance of $1.40 Preferred Stock, whichever is later, the Corporation shall not merge or consolidate with or into any other corporation in a transaction in which the Corporation is not the continuing corporation or sell all or substantially all of its assets in exchange for securities of another corporation and then liquidate, unless in any such transaction the $1.40 Preferred Stock shall be converted into or exchanged solely for voting stock of a party to such transaction.

1.11. For purposes of the provisions of this Article Fourth applicable to the $1.40 Preferred Stock:

(a) The term "full cumulative dividends" shall mean cumulative dividends on the $1.40 Preferred Stock computed, to the date or for the dividend period with reference to which the expression is used, at the rate of $1.40 per annum per share (whether or not such amount or any part thereof shall have been declared as dividends, whether or not there exists or shall have existed available funds out of which dividends in such amount might be or might theretofore have been declared, and whether or not declaration or payment of dividends in such amount shall be or shall have been in contravention of any applicable restrictions from time to time in effect for the benefit of holders of any class of securities of the Corporation), less the aggregate of dividends paid thereon to such date or for such dividend period, as the case may be; and

(b) The "first issuance of $1.40 Preferred Stock" shall be deemed to occur on the Effective Date of the Agreement of Merger to which these provisions, inter alia, are attached as Schedule I.

**(d) By changing the first, tenth and eleventh full paragraphs of Article Ninth to read as follows:**

All corporate powers shall be exercised by the Board of Directors, except as may be otherwise provided by statute or by this Certificate of Incorporation; and, subject to the specific provisions limiting or otherwise qualifying the same contained in Article Fourth of this Certificate of Incorporation, the following powers are hereby conferred in furtherance, and not in limitation of the powers conferred by statute.

When and as authorized by the affirmative vote of the holders of a majority of the voting power of the Corporation given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting power of the Corporation, the Board of Directors shall have power and authority to sell, lease or exchange all of the property and assets of the Corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as the Board of Directors shall deem expedient and for the best interests of the Corporation.

Any member of the Board of Directors may be removed from office at any time without cause assigned therefor, by affirmative vote of a majority of the voting power of the Corporation, at any special meeting of the stockholders called in accordance with the provisions of the by-laws of the Corporation.

I, , Secretary of SCHENLEY INDUSTRIES, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of SCHENLEY INDUSTRIES, INC. in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the Chairman of the Board and attested by the Secretary of SCHENLEY INDUSTRIES, INC. under its corporate seal in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was submitted to the stockholders of SCHENLEY INDUSTRIES, INC., at a meeting thereof duly called for the purpose of acting on said Agreement of Merger and at said meeting more than a majority of the outstanding shares of the capital stock of SCHENLEY INDUSTRIES, INC. entitled to vote thereon were voted for the adoption of the foregoing Agreement of Merger.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of SCHENLEY INDUSTRIES, INC. and affixed the seal of said corporation this day of , 1969.

.....

*Secretary*

[CORPORATE SEAL]

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I, , Secretary of BHM INDUSTRIES, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of BHM INDUSTRIES, INC., in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the Chairman of the Board and attested by the Secretary of BHM INDUSTRIES, INC., under its corporate seal, in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was submitted to the stockholders of BHM INDUSTRIES, INC., at a meeting thereof duly called for the purpose of acting on said Agreement of Merger and at said meeting more than a majority of the outstanding shares of the capital stock of BHM INDUSTRIES, INC. entitled to vote thereon were voted for the adoption of the foregoing Agreement of Merger.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of BHM INDUSTRIES, INC. and affixed the seal of said corporation this day of , 1969.

.....

*Secretary*

[CORPORATE SEAL]

The foregoing Agreement of Merger having been duly adopted by the stockholders of SCHENLEY INDUSTRIES, INC., a Delaware corporation, and by the stockholders of BHM INDUSTRIES, INC. a Delaware corporation, and the fact of the adoption thereof as aforesaid having been duly certified thereon by the Secretary of SCHENLEY INDUSTRIES, INC., and by the Secretary of BHM INDUSTRIES, INC., respectively, all in accordance with law, said Agreement of Merger is hereby executed by the Chairman of the Board or the President or a Vice President and attested by the Secretary or an Assistant Secretary of each of said Corporations thereunto duly authorized, under its respective corporate seal, this day of , 1969.

SCHENLEY INDUSTRIES, INC.

By .....

[CORPORATE SEAL]

Attest:

.....

*Secretary*

BHM INDUSTRIES, INC.

By .....

[CORPORATE SEAL]

Attest:

.....

*Secretary*

STATE OF DELAWARE
COUNTY OF NEW CASTLE } ss.:

BE IT REMEMBERED that on this day of , 1969, personally came before me, a Notary Public in and for the county and state aforesaid, of SCHENLEY INDUSTRIES, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said , as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger, to be his act and deed and the act, deed and agreement of said SCHENLEY INDUSTRIES, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of SCHENLEY INDUSTRIES, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....
*Notary Public*

STATE OF DELAWARE
COUNTY OF NEW CASTLE } ss.:

BE IT REMEMBERED that on this day of , 1969, personally came before me, a Notary Public in and for the county and state aforesaid, of BHM INDUSTRIES, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said , as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger to be his act and deed and the act, deed and agreement of said BHM INDUSTRIES, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of BHM INDUSTRIES, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....
*Notary Public*

**EXHIBIT C**

**(Common Stock Agreement of Merger)**

**AGREEMENT OF MERGER,** dated November 14, 1969, by and between SCHENLEY INDUSTRIES, INC., a Delaware corporation (hereinafter called "Schenley"), and BHM INDUSTRIES, INC., a Delaware corporation (hereinafter called "BHM"), Schenley and BHM being hereinafter sometimes called the "Constituent Corporations",

WHEREAS, the authorized capital stock of Schenley consists of 20,000,000 shares of Common Stock, par value $.93⅓ per share (hereinafter called "Schenley Common Stock"), of which 7,804,943 shares were issued and outstanding as of June 30, 1969 and 4,000,000 shares of Cumulative Preference Stock, par value $.35 per share (hereinafter called "Schenley Preference Stock"), of which 202,025 shares were issued and outstanding as of June 30, 1969.

WHEREAS, the authorized capital stock of BHM consists of 9,000,000 shares of Common Stock, par value $.50 per share (hereinafter called "BHM Common Stock"), of which 5,800,000 shares are issued and outstanding, including 3,100 shares which were held on June 30, 1969 by former stockholders of The Buckingham Corporation ("Buckingham") who have demanded payment for their shares of Class A Common Stock of such corporation pursuant to applicable law.

WHEREAS, the respective Boards of Directors of each of the Constituent Corporations deem it advisable and generally to the welfare and advantage of each and of all of the several and respective holders of their shares that the Constituent Corporations merge under and pursuant to Title 8, Chapter 1 of the Delaware Code and the applicable amendments thereof and supplements thereto, known as and hereinafter called the "General Corporation Law of the State of Delaware" and have approved this Agreement of Merger.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, provisions and covenants herein contained, the parties hereto hereby agree in accordance with the General Corporation Law of the State of Delaware that Schenley and BHM shall be, and they hereby are, at the Effective Date (as defined in Section 3 hereof) of this Agreement of Merger, merged into a single corporation existing under the laws of the State of Delaware, to wit, Schenley, one of the Constituent Corporations, which shall be the surviving corporation (such corporation in its capacity as such surviving corporation being hereinafter sometimes called the "Surviving Corporation"), and the parties hereto adopt and agree to the following agreements, terms and conditions relating to said merger and the mode of carrying the same into effect.

1. **Name of Surviving Corporation, Certificate of Incorporation, By-Laws, Directors and Officers.**

1.1. *Name of Surviving Corporation.* The name of the corporation which shall survive the merger is, and after the Effective Date shall continue to be, "SCHENLEY INDUSTRIES, INC.".

1.2. *Certificate of Incorporation.* The Certificate of Incorporation of Schenley, as in effect on the date hereof, shall be further amended by this Agreement of Merger as set forth in Schedule I hereto, and said Certificate of Incorporation as so amended shall from and after the Effective Date be and continue to be the Certificate of Incorporation of the Surviving Corporation until further amended as provided by law.

1.3. *By-Laws.* The By-Laws of Schenley, as in effect on the Effective Date, shall from and after the Effective Date be and continue to be the By-Laws of the Surviving Corporation until amended as therein provided.

1.4. *Directors.* The directors of Schenley on the Effective Date shall be the directors of the Surviving Corporation and shall hold office from the Effective Date until their successors are elected in accordance with law and the By-Laws of the Surviving Corporation and shall have duly qualified.

1.5. *Officers.* The officers of Schenley on the Effective Date shall be the officers of the Surviving Corporation and shall hold their respective offices in Schenley from the Effective Date and until their successors are elected or appointed in accordance with the By-Laws of the Surviving Corporation and shall have duly qualified.

1.6. *Vacancies.* If, on or after the Effective Date, a vacancy shall exist in the Board of Directors or in any of the offices of the Surviving Corporation by reason of death or inability to act, or for any other reason, such vacancy may be filled in the manner provided in the By-Laws of the Surviving Corporation.

**2. Status and Conversion of Securities.**

2.1. *Authorized Capitalization of Surviving Corporation.* The total number of shares of all classes of stock which the Surviving Corporation shall be authorized to issue is twenty-four million (24,000,000) shares, of which four million (4,000,000) shares shall be shares of Cumulative Preference Stock of the par value of thirty-five cents ($.35) per share, amounting in the aggregate to one million four hundred thousand dollars ($1,400,000) and twenty million (20,000,000) shall be shares of Common Stock of the par value of ninety-three and one-third cents ($.93⅓) per share, amounting in the aggregate to eighteen million, six hundred and sixty-six thousand, six hundred and sixty-six dollars and sixty-six and two-thirds cents ($18,666,666.66⅔).

2.2. *BHM Common Stock.* Each share of BHM Common Stock outstanding and not held by Schenley on the Effective Date shall be converted into nine-tenths (9/10ths) of one share of Schenley Common Stock; provided that no fractional shares of Schenley Common Stock shall be issued upon such conversion and that fractional interests in shares of Schenley Common Stock arising therefrom shall be treated as provided in Section 2.5. All shares of BHM Common Stock held on the Effective Date by Schenley, and the certificates representing the same, shall be cancelled and retired.

2.3. *Surrender and Exchange of BHM Common Stock Certificates.* After the Effective Date, each holder of an outstanding certificate or certificates theretofore representing shares of BHM Common Stock, except those to be cancelled and retired in accordance with Section 2.2, shall surrender such certificate or certificates to Manufacturers Hanover Trust Company or such other bank or trust company as the Surviving Corporation shall designate (hereinafter called the "Exchange Agent"), and shall receive in exchange therefor a certificate or certificates representing the number of whole shares of Schenley Common Stock into and for which the shares of BHM Common Stock theretofore represented by such surrendered certificate or certificates have been converted. Until surrendered and exchanged, each outstanding certificate theretofore representing shares of BHM Common Stock shall be deemed for all purposes (other than the payment of dividends or other distributions) to represent the number of whole shares of Schenley Common Stock into which the shares theretofore represented thereby shall have been converted. No dividends or other distributions, if any, payable to the holders of record of Schenley Common Stock as of a record date at or after the Effective Date shall be paid to the holders of such outstanding certificates theretofore representing shares of BHM Common Stock, provided that upon the surrender and exchange of such outstanding certificates theretofore representing shares of BHM Common Stock there shall be paid to the record holder of the certificate or certificates issued in exchange therefor, the amount, without interest thereon, of all such dividends and other distributions, if any, which theretofore have been declared and become payable with respect to the number of whole shares of Schenley Common Stock represented thereby.

2.4. *Status of Buckingham Certificates.* For purposes of Section 2.3 "Certificates theretofore representing shares of BHM Common Stock" shall be deemed to include only certificates issued under the name of BHM and not certificates for shares of Class A Common Stock of Buckingham ("Buckingham Certificates") issued under the name of such corporation, which certificates were deemed for all purposes (other than the payment of dividends or other distributions having a record date after June 15, 1969) to represent shares of BHM Common Stock pursuant to that certain Agreement of Merger dated as of March 24, 1969, as amended, by and between BHM Subsidiary, Inc. and Buckingham which was filed with the Secretary of State of the State of Delaware and became effective on May 15, 1969. After the Effective Date, Buckingham Certificates shall be

deemed for all purposes (other than the payment of such dividends and other distributions) to represent the number of whole shares of Schenley Common Stock into and for which the shares of BHM Common Stock represented thereby shall have been converted, but nothing in this Section 2.4 shall be deemed to waive the requirement of the exchange of Buckingham Certificates for certificates representing shares of BHM Common Stock pursuant to the aforesaid Agreement of Merger by and between BHM Subsidiary, Inc. and Buckingham.

2.5. *Fractional Interests.* No fractional shares of Schenley Common Stock and no scrip certificates therefor shall be issued to represent any fractional interests in shares of Schenley Common Stock, and such fractional interests shall not entitle the owners thereof to vote, to receive dividends or to exercise any other right of stockholders of the Surviving Corporation. Arrangements will be made with the Exchange Agent to act as agent for the owners of such fractional interests and to purchase and sell fractional interests in the following manner: for 60 days after the Effective Date each person entitled to a fractional interest in a share of Schenley Common Stock as a result of the conversion provided for in this Agreement will be able through the Exchange Agent to purchase such fractional interest in a share of Schenley Common Stock as is required to make up one whole share of Schenley Common Stock or to sell such fractional interest in a share of Schenley Common Stock to which he is so entitled as aforesaid. Promptly after the expiration of such 60 day period, the Exchange Agent will sell, to the extent practicable at the market regular way in one or more transactions, for the respective accounts of the holders of all remaining fractional interests as to which the Exchange Agent shall not during such period have received a request for the purchase or sale of fractional interests, the number of whole shares of Schenley Common Stock equivalent to the aggregate of such remaining fractional interests. The proceeds, if any, of such sale remaining unclaimed after the expiration of six years after the Effective Date shall be paid over to and shall become the property of the Surviving Corporation, free and clear of all claims or interests of any persons previously entitled thereto. Purchases and sales of fractional interests in a share of Schenley Common Stock for the account of stockholders will be effected daily on the basis of the regular way reported closing market price per share of the shares of Schenley Common Stock traded that day (or, if not traded that day, on the day of the last such trade) on the New York Stock Exchange or such other national securities exchange, if any, on which it is listed, or if not so listed or if suspended from trading on all such exchanges on which it is listed, at the mean between the high bid and low asked prices for such stock as published in the pink sheets of the National Daily Quotation Service for the preceding business day. The Exchange Agent will be given the right to offset buying and selling orders to the extent possible. No service charges, brokerage commissions or transfer taxes will be payable in connection with such purchases and sales, all of which costs will be defrayed by the Surviving Corporation.

2.6. *Schenley Capital Stock.* The shares of Schenley Common Stock and Schenley Preference Stock outstanding or held by Schenley as treasury stock on the Effective Date shall continue as shares of Schenley Common Stock and Schenley Preference Stock, respectively.

2.7. *Schenley Stock Options.* All options to purchase shares of Schenley Common Stock under the Schenley Employees' Share Purchase Plan heretofore granted shall continue in effect without change.

**3. Effective Date.**

This Agreement shall become effective at the time and on the date when this Agreement duly adopted, certified, executed and acknowledged has been filed in accordance with Section 103(c) of the General Corporation Law of the State of Delaware. The time and date of such effectiveness is referred to herein as the "Effective Date".

**4. Certain Effects of the Merger.**

When the merger shall have become effective, the separate existence of BHM shall cease and the Constituent Corporations shall be merged into Schenley which as the Surviving Corporation shall possess

all the rights, privileges, powers and franchises as well of a public as of a private nature, and be subject to all the restrictions, disabilities and duties of each of the Constituent Corporations; and all and singular, the rights, privileges, powers and franchises of each of the Constituent Corporations, and all property, real, personal and mixed, and all debts due to either of the Constituent Corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to either of such corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the Constituent Corporations, and the title to any real estate vested by deed or otherwise, under the laws of Delaware or any other state, in any of the Constituent Corporations, shall not revert or be in any way impaired; but all rights of creditors and all liens upon any property of any of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities and duties of the Constituent Corporations shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it. At any time, or from time to time, after the Effective Date, the last acting officers of BHM, or the corresponding officers of the Surviving Corporation, may, in the name of BHM execute and deliver all such proper deeds, assignments, and other instruments and take or cause to be taken all such further or other action as the Surviving Corporation may deem necessary or desirable in order to vest, perfect, or confirm in the Surviving Corporation title to and possession of all of BHM's property, rights, privleges, powers, franchises, immunities, and interests and otherwise to carry out the purposes of this Agreement.

5. **Termination, Amendments, Supplements, Etc.**

5.1 *Termination.* Prior to the filing hereof in accordance with the General Corporation Law of the State of Delaware, this Agreement shall be terminable and terminate in accordance with the provisions of the Plan and Agreement of Reorganization dated of even date herewith by and between Schenley and BHM.

5.2 *Amendments, Supplements, Etc.,* At any time whether before or after submission to, or adoption by, the respective stockholders of the Constituent Corporations, this Agreement may be amended in matters of form, or supplemented by additional agreements, articles or certificates, as may be determined in the judgment of the Boards of Directors of the Constituent Corporations to be necessary, desirable, or expedient to clarify the intention of the parties hereto or to effect or facilitate the filing, recording or official approval of this Agreement and the consummation hereof and the merger provided for herein, in accordance with the purpose and intent of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed by each of the Constituent Corporations, by its Chairman of the Board or its President or a Vice President and attested by the Secretary or an Assistant Secretary of each of the Constituent Corporations under its corporate seal, all on the date first above written.

[Signatures omitted]

**SCHEDULE I**

Article FOURTH of the Certificate of Incorporation of Schenley Industries, Inc., shall be, and hereby is, amended:

**(a) by deleting in its entirety subparagraph (j) and substituting therefor the following new subparagraph (j) to read as follows:**

"(j) The holders of Common Stock shall have no preemptive or preferential right to subscribe for or purchase any shares of Cumulative Preference Stock, Common Stock, or other class of capital stock of the Corporation or any security convertible into such stock.

I, , Secretary of SCHENLEY INDUSTRIES, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of SCHENLEY INDUSTRIES, INC. in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the Chairman of the Board and attested by the Secretary of SCHENLEY INDUSTRIES, INC. under its corporate seal in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was submitted to the stockholders of SCHENLEY INDUSTRIES, INC., at a meeting thereof duly called for the purpose of acting on said Agreement of Merger and at said meeting more than a majority of the outstanding shares of the capital stock of SCHENLEY INDUSTRIES, INC. entitled to vote thereon were voted for the adoption of the foregoing Agreement of Merger.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of SCHENLEY INDUSTRIES, INC. and affixed the seal of said corporation this day of , 1969.

.....

*Secretary*

[CORPORATE SEAL]

---

I, , Secretary of BHM INDUSTRIES, INC., a corporation organized and existing under and by virtue of the laws of the State of Delaware, hereby certify as follows:

1. The foregoing Agreement of Merger was adopted and approved by the Board of Directors of BHM INDUSTRIES, INC., in accordance with Section 251 of the General Corporation Law of the State of Delaware and was executed by the Chairman of the Board and attested by the Secretary of BHM INDUSTRIES, INC., under its corporate seal, in accordance with Section 103 of the General Corporation Law of the State of Delaware.

2. Thereafter, the foregoing Agreement of Merger was submitted to the stockholders of BHM INDUSTRIES, INC., at a meeting thereof duly called for the purpose of acting on said Agreement of Merger and at said meeting more than a majority of the outstanding shares of the capital stock of BHM INDUSTRIES, INC. entitled to vote thereon were voted for the adoption of the foregoing Agreement of Merger.

IN WITNESS WHEREOF, I have hereunto signed my name as Secretary of BHM INDUSTRIES, INC. and affixed the seal of said corporation this day of , 1969.

.....

*Secretary*

[CORPORATE SEAL]

The foregoing Agreement of Merger having been duly adopted by the stockholders of SCHENLEY INDUSTRIES, INC., a Delaware corporation, and by the stockholders of BHM INDUSTRIES, INC., a Delaware corporation, and the fact of the adoption thereof as aforesaid having been duly certified thereon by the Secretary of SCHENLEY INDUSTRIES, INC., and by the Secretary of BHM INDUSTRIES, INC., respectively, all in accordance with law, said Agreement of Merger is hereby executed by the Chairman of the Board or the President or a Vice President and attested by the Secretary or an Assistant Secretary of each of said Corporations thereunto duly authorized, under its respective corporate seal, this day of , 1969.

SCHENLEY INDUSTRIES, INC.

By .....

[CORPORATE SEAL]

Attest:

.....

*Secretary*

BHM INDUSTRIES, INC.

By .....

[CORPORATE SEAL]

Attest:

.....

*Secretary*

STATE OF DELAWARE
COUNTY OF NEW CASTLE } SS.:

BE IT REMEMBERED that on this day of , 1969, personally came before me, a Notary Public in and for the county and state aforesaid, of SCHENLEY INDUSTRIES, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said , as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger, to be his act and deed and the act, deed and agreement of said SCHENLEY INDUSTRIES, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of SCHENLEY INDUSTRIES, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....

*Notary Public*

STATE OF DELAWARE
COUNTY OF NEW CASTLE } SS.:

BE IT REMEMBERED that on this day of , 1969, personally came before me, a Notary Public in and for the county and state aforesaid, of BHM INDUSTRIES, INC., a corporation of the State of Delaware and one of the corporations described in and which executed the foregoing Agreement of Merger, known to me personally to be such, and he the said , as such duly executed said Agreement of Merger before me and acknowledged said Agreement of Merger to be his act and deed and the act, deed and agreement of said BHM INDUSTRIES, INC., that the facts stated therein are true, that his signature to said foregoing Agreement of Merger is in his handwriting, and that the seal affixed to said Agreement of Merger is the corporate seal of BHM INDUSTRIES, INC.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year aforesaid.

[Notarial Seal]

.....

*Notary Public*

*Exchange Offer to Holders of Common Stock of*

*Schenley Industries, Inc.*

*Expires August 30, 1968, unless extended*

# GLEN ALDEN CORPORATION

## $420,914,000

## 6% SINKING FUND SUBORDINATED DEBENTURES

**Due: August 15, 1988**

Glen Alden Corporation ("Glen Alden") hereby offers to exchange $100 aggregate principal amount of its 6% Sinking Fund Subordinated Debentures, due August 15, 1988 (the "Debentures"), plus the sum of $13 in cash for each one and one-half (1½) shares of the Common Stock (par value 93⅓¢ per share) of Schenley Industries, Inc. (the "Schenley Common Stock") subject to the terms and conditions set forth herein and in the accompanying Letter of Tender and Transmittal. All shares of Schenley Common Stock so tendered for exchange will be accepted by Glen Alden. The Debentures will constitute the unsecured general obligations of Glen Alden.

Application has been made to list the Debentures on the New York Stock Exchange.

Interest on the Debentures is payable from September 1, 1968. Exchanging holders of Schenley Common Stock will receive cash payments equivalent to interest from the "Effective Date of Exchange" to August 31, 1968.

Pursuant to an agreement dated March 20, 1968 (the "Stock Purchase Agreement"), Glen Alden acquired approximately 18% of the outstanding shares of Schenley Common Stock from Lewis S. Rosenstiel and related sellers for $80 per share ($53.33 per share after adjustment for the subsequent 3 for 2 stock-split). For further details, see "Background of Transaction".

Glen Alden has been advised by the managements of Rapid-American Corporation and McCrory Corporation and by Messrs. Sol and Jeffrey Kittay, that it is their present intention to tender pursuant to the Exchange Offer all of the 916,950 shares of Schenley Common Stock acquired by them as described on page 9 hereof, and that each of them presently intends to offer part or all of the Debentures to be received as a result of said tender for sale from time to time on the New York Stock Exchange, or otherwise, at prices current at the time of sale. These sales may occur either prior to or after the Expiration Date of the Exchange Offer. Glen Alden will receive no part of the proceeds of any such sale. If Rapid-American Corporation, McCrory Corporation or Sol or Jeffrey Kittay effect any such sales of Debentures in the open market, they may be deemed to be "underwriters" of such Debentures within the meaning of the Securities Act of 1933.

The Dealer Managers are:

**Allen & Company Incorporated** **Paribas Corporation**

**Cantor, Fitzgerald & Co., Inc.**

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Prospectus is August 8, 1968.

## INTRODUCTION

**This Prospectus should be read carefully and the transactions discussed herein should be understood before exercising any decision with respect thereto (See "Background of Transaction" and "Consent Judgment").**

By means of this Prospectus Glen Alden is offering to exchange $13 in cash plus $100 aggregate principal amount of its 6% Sinking Fund Subordinated Debentures, due August 15, 1988, for each one and one-half (1½) shares of the Common Stock (par value 93⅓¢ per share) of Schenley Industries, Inc. as hereinafter described under "Exchange Offer".

The choices available to the holders of Schenley Common Stock include, but are not necessarily limited to, the following: (a) to accept the Glen Alden Exchange Offer and either hold or sell the Debentures received as a result thereof; (b) to continue to hold their Schenley Common Stock; or (c) to sell their Schenley Common Stock.

If Glen Alden acquires a majority of the outstanding Schenley Common Stock, it will, in due course, be in a position to elect the Board of Directors of Schenley.

On March 28, 1968 the Board of Directors of Schenley announced an increase in the quarterly dividend rate payable on its Common Stock which resulted in an annual dividend rate of $1.95 for each one and one-half (1½) shares of Schenley Common Stock, after giving effect to the 3 for 2 split in March 1968. It is Glen Alden's present intention that Schenley's aforesaid dividend policy will be continued, subject to review from time to time of Schenley's earnings, financial condition and other relevant factors. Each one and one-half (1½) shares of Schenley's Common Stock will be exchangeable for $100 principal amount of Debentures (plus $13 in cash) and the interest payable with respect to said $100 of Debentures will be $6 per annum.

Attention is called to the matters discussed under "Background of Transaction". For a discussion of the Federal income tax consequences of the Exchange Offer, reference is made to "Federal Income Tax Status". No assurances can be given with respect to the continued listing on the New York Stock Exchange of Schenley Common Stock. (See "Delisting of Schenley Common Stock".)

It should also be noted that Glen Alden's total stockholders' equity at June 30, 1968 was $218,275,943 consisting of four classes of preferred stock in addition to Common Stock. As at June 30, 1968, the aggregate initial redemption requirement of the outstanding shares of preferred stock was $189,162,894 and 12,975,834 shares of Common Stock were issuable upon conversion of outstanding shares of preferred stock. Upon acceptance of the Exchange Offer by the holders of all Schenley Common Stock, Glen Alden's total pro forma indebtedness would be $850,123,191 consisting of $229,083,685 of short term debt, $420,914,000 of subordinated debt represented by the Debentures, and $200,125,506 of long-term debt. Substantially all of such indebtedness other than the Debentures will be either "Senior Indebtedness" or indebtedness constituting a prior claim against certain subsidiaries.

The following table shows the approximate amount of pro forma long-term debt which will mature during each of the periods set forth below together with the approximate pro forma long-term debt interest expense (including the interest on the Debentures assuming 100% acceptance of the Exchange Offer) for each such period:

| | Year Ended June 30 | | |
|---|---|---|---|
| | 1969 | 1970 | 1971 |
| Maturities of Pro Forma Long-Term Debt | $13,483,000 | $20,871,000 | $16,116,000 |
| Interest on Pro Forma Long-Term Debt | $36,790,000 | $36,156,000 | $34,885,000 |

It is not possible to predict the interest requirements of short term debt for these periods.

The following is a summary of combined cash flow for 1967 and is based on the amounts in the Pro Forma Statement of Combined Income (Unaudited) included elsewhere herein, adjusted as shown below:

| | |
|---|---|
| Net Income, per pro forma statement of combined income | $19,621,000 |
| Depreciation and amortization | 14,333,000 |
| Deferred income taxes | 803,000 |
| Amortization of debenture discount | 5,261,000 |
| Pro forma cash flow for 1967 | $40,018,000 |

The Indenture relating to the Debentures permits further indebtedness, without limitation in amount, which may rank senior to the Debentures. If any such additional senior indebtedness is issued by Glen Alden, the market price of the Debentures may or may not be adversely affected.

Glen Alden has in the recent past grown substantially through several major acquisitions. Glen Alden has also disposed of or made plans to dispose of certain of its assets. Reference is made to "GLEN ALDEN CORPORATION—HISTORY AND BUSINESS" for a discussion of these acquisitions and dispositions.

Glen Alden is principally engaged directly and through its subsidiaries in the manufacture and sale of a variety of consumer products under the *"Playtex"* and other trademarks, in the operation of a chain of men's and boys' furnishing shops in 32 states, in the manufacture of clothing and furnishings, principally for men and boys, under such trademarks as *"Timely Clothes," "B.V.D.," "Alligator"* and others, in the operation of approximately 132 motion picture theatres in the RKO-Stanley Warner Theatres Division, and in the manufacture and sale of textiles and various industrial and building products. Except as otherwise expressly indicated or unless the context otherwise requires, references herein to Glen Alden include predecessor companies and its consolidated subsidiaries.

Glen Alden has not, either prior to or after March 20, 1968 (the date of the Stock Purchase Agreement with Lewis S. Rosenstiel) made any audits or studies of the business or affairs of Schenley except from information generally available to the public.

## THE EXCHANGE OFFER

### Terms and Conditions

Glen Alden hereby offers to exchange $100 aggregate principal amount of its 6% Sinking Fund Subordinated Debentures, due August 15, 1988, plus the sum of $13 in cash for each one and one-half (1½) shares of the Common Stock (par value 93⅓¢ per share) of Schenley Industries, Inc., subject to the terms and conditions set forth herein and in the accompanying Letter of Tender and Transmittal. Glen Alden will accept all shares of Schenley Common Stock duly tendered on or before the Expiration Date. In the event of any stock dividend, stock split, or other change in the Schenley Common Stock (as constituted on the date of this Prospectus) or in the event of any dividend on the Schenley Common Stock other than Schenley's regular quarterly dividends, Glen Alden reserves the right to make an appropriate adjustment in the cash and principal amount of Debentures issuable under the Exchange Offer for subsequently tendered shares. All tenders of Schenley Common Stock are irrevocable.

### Method of Tender

Holders of Schenley Common Stock who wish to accept the Exchange Offer should promptly mail or deliver the certificates evidencing their Schenley Common Stock to the Exchange Agent, The First National Bank of Boston, Box 1926, Boston, Massachusetts 02105 (hand deliveries to fifth floor, 1 Federal Street, Boston, Massachusetts) postmarked on or before the Expiration Date hereinafter mentioned, together with a Letter of Tender and Transmittal duly completed and executed. Deliveries may also be made by hand or by mail to either of the Forwarding Agents, The Chase Manhattan Bank N.A., Corporate Agency Department, 2nd Floor, 80 Pine Street, New York, New York 10015, or American National Bank and Trust Company of Chicago, LaSalle at Washington Streets, Chicago, Illinois 60690. Documents received by a Forwarding Agent prior to the close of business on the Expiration Date will be forwarded to the

Exchange Agent and, if in proper form, will be accepted. Shares will also be deemed properly tendered if (i) a properly executed Letter of Tender and Transmittal, accompanied by the certificates of Schenley Common Stock to be tendered, has been deposited with a commercial bank or trust company in the continental United States, or a member of the National Association of Securities Dealers, Inc., or a foreign dealer who has agreed to comply with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and (ii) the Exchange Agent or a Forwarding Agent shall have received from such bank, trust company, member or dealer, on or prior to the Expiration Date, a letter or telegram giving the name of the tendering stockholder, the number of shares tendered, the certificate numbers of the certificates representing the shares tendered and stating that the deposit has been made and that the deposited material has been or will be forwarded to the Exchange Agent or Forwarding Agent, as the case may be, and (iii) the deposited material is thereafter in fact received by such Agent within five business days after receipt of the letter or telegram.

Tendered shares of Schenley Common Stock which are not in proper form may be returned, without cost, by the Exchange Agent or a Forwarding Agent, as the case may be, to the tendering stockholder. Glen Alden reserves the right (without any obligation so to do) to waive any defect in any tender or to permit any defect to be cured after the Expiration Date.

**Cash Payment Equivalent to Interest**

Glen Alden will pay to each exchanging holder of Schenley Common Stock cash in an amount equivalent to interest on the principal amount of Debentures to which such exchanging holder is entitled under the Exchange Offer at the rate of 6% per annum commencing on the Effective Date of Exchange (as hereinbelow defined) and terminating on August 31, 1968. Thereafter interest will commence to accrue on the Debentures.

**Effective Date of Exchange**

The Effective Date of Exchange with respect to shares of Schenley Common Stock properly tendered, for the purpose of cash payments equivalent to interest, will be the Monday next following the date on which such shares so tendered are, or a letter or telegram as described above is, received by the Exchange Agent or a Forwarding Agent.

**Expiration Date**

The Exchange Offer made hereby will expire on August 30, 1968 (the "Expiration Date") or on any later date to which the Exchange Offer may be extended at Glen Alden's option upon written notice from Glen Alden to the Exchange Agent and the Forwarding Agents

**Delivery of Debentures and Payment of Cash**

Deliveries of Debentures and payment of the cash to which each exchanging holder of Schenley Common Stock is entitled will be made as soon as practicable after the Effective Date of Exchange, such deliveries and payments to be made through the Exchange Agent and Forwarding Agents.

**Soliciting Dealers**

The investment banking firms of Allen & Company Incorporated, Paribas Corporation and Cantor, Fitzgerald & Co., Inc., as Dealer Managers, have agreed with Glen Alden to use their best efforts to cause dealers (including themselves) to solicit tenders in response to the Exchange Offer. The Dealer Managers will be paid a fee of 15 cents for each share of Schenley Common Stock tendered and accepted in response to the Exchange Offer, with a minimum fee of $100,000. In addition, Glen Alden will pay 85 cents per share to each securities dealer whose name appears on the Letter of Tender and Transmittal in the space provided therefor, provided such dealer is a member of the National Association of Securities Dealers, Inc., or is a foreign dealer who has agreed to comply with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. No fee will be paid in respect of shares tendered by or on behalf of Rapid-American Corporation, McCrory Corporation, or any of the directors or officers of either thereof or of Glen Alden, or by any affiliate of any of the foregoing, or by trusts or foundations of which such corporations or such directors or officers are settlors, trustees, or directors, or by employee benefit plans of Glen Alden or its affiliates. David Bunim, a director of Glen Alden, is Chairman of the Executive Committee of Paribas Corporation, one of the Dealer Managers.

In addition to the foregoing, Allen & Company Incorporated received $100,000 as compensation for its advice and assistance in connection with formulating the terms and conditions of the Exchange

Offer. For the period commencing June 1, 1967 and ending August 31, 1968 B. G. Cantor & Co., Inc., a corporation affiliated with Cantor, Fitzgerald & Co., Inc. has acted in the capacity of financial adviser to Glen Alden Corporation for an aggregate fee of $150,000 payable in monthly installments. (Reference is also made to Note (b) to "Capitalization Table" for a discussion of the participation by Paribas Corporation in the refinancing of certain indebtedness of a subsidiary of Glen Alden.)

There are no underwriting arrangements in connection with the Exchange Offer except to the extent that dealers may be considered "underwriters", as defined in Section 2(11) of the Securities Act of 1933. The Dealer Manager agreement provides that nothing in said agreement or in the Registration Statement of which this Prospectus forms a part shall constitute or is intended to constitute any Dealer Manager or dealer an "underwriter" as that term is defined in the Securities Act of 1933. Under the aforesaid agreement, Glen Alden indemnifies the Dealer Managers (and each person, if any, who controls a Dealer Manager within the meaning of Section 15 of the Securities Act of 1933) against certain liabilities including liabilities under the Securities Act of 1933.

**Payment of Expenses**

The expenses to be incurred in connection with the Exchange Offer (excluding the fees and expenses of the Dealer Managers and compensation paid to soliciting dealers) for printing, accounting and legal fees, fees for registration or qualification under Federal and State securities laws, any stock transfer taxes and miscellaneous other items cannot be estimated with accuracy because of the variable factors involved, but, it is expected that the total expenses will not exceed approximately $1,225,000. All such expenses will be borne by Glen Alden.

**Federal Income Tax Status**

Glen Alden has been advised by its counsel, Messrs. Strasser, Spiegelberg, Fried & Frank, and its special tax advisors, Messrs. Hanigsberg, Delson & Broser, that, for Federal income tax purposes, a Schenley Common Stockholder who tenders Schenley Common Stock will realize taxable gain or loss upon the receipt of the cash and Debentures in exchange for his stock. Except as otherwise indicated, the gain or loss will, generally, be recognized as capital gain or loss (provided the Schenley Common Stockholder is not a dealer in securities) and will be treated as long term if the Schenley shares have been held by him for more than six months. Cash received as the equivalent of interest on the Debentures will be treated as ordinary income.

A Schenley Common Stockholder who does not elect to report gain on the installment method may measure his gain or loss by the difference between (i) the sum of the cash (other than cash received as the equivalent of interest) and the fair market value of the Debentures on the date of the exchange and (ii) the cost basis of the shares of Schenley Common Stock surrendered.

Said counsel and advisors have further advised that, under certain circumstances, a Schenley Common Stockholder who receives the cash and Debentures may elect to report his gain, if any, on the installment method, under Section 453 of the Internal Revenue Code, in which event a substantial portion of the gain may be deferred until the Debentures have been sold, redeemed or otherwise disposed of. If an exchanging Stockholder elects the installment method, the gain will be computed by the difference between (i) the sum of the cash (other than cash received as the equivalent of interest) and principal amount of the Debentures received and (ii) the cost basis of the shares of Schenley Common Stock surrendered. Since the cash received constitutes the first installment payment, only ~~one-eleventh~~ (~~1/11~~) of the gain so computed need be reported on receipt of the cash and the Debentures. The balance of the gain will not be taxable until the Schenley Common Stockholder receives payment on the Debentures or they are sold or otherwise disposed of.

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Glen Alden has further been advised that the Debentures may be deemed to have been issued at an original issue discount within the meaning of §1232 of the Internal Revenue Code, in which event part of the gain, if any, realized from a subsequent sale or redemption of the Debentures may be treated as ordinary income. If §1232 is deemed to be applicable, the amount of original issue discount may be deemed to be the excess of the face value of the Debentures over the fair market value of the Schenley shares less the cash received. For example, if the fair market value of Schenley Common Stock is deemed to be $49.25 per share, the closing price on the New York Stock Exchange on August 6, 1968, the original issue discount for purposes of §1232 would be 39.125% of the principal amount of the Debentures (i.e., 1½ shares @ $49.25 = $73.875 less $13 cash = $60.875; $100 principal amount of

Debentures less $60.875 — $39.125 or 39.125%). The foregoing closing price on the New York Stock Exchange has been arbitrarily selected for purposes of the foregoing illustration only. It is not clear how or when such Schenley shares should be valued for the purpose of determining such discount, and it is not now possible to determine what value should be used for such purpose. It should also be noted that, if §1232 is deemed applicable, the amount of ordinary income which may be recognized must be prorated over the period for which the Debentures are held and will be recognized only when the Debentures are ultimately sold or redeemed, and the amount thereof cannot exceed the gain realized at such time.

The above example of original issue discount is intended only to illustrate the method of computation should §1232 be deemed applicable. It should in no way be regarded as a prediction as to the market value of the Schenley Common Stock or the Debentures or as to the actual amount of such discount under §1232.

Glen Alden has also been advised by said counsel and advisors that the amount by which the face amount of the Debentures issued exceeds the fair market value of the Schenley Common Stock acquired less the cash paid should be treated as debt discount and amortized over the term of the Debentures; and that such amortizable amount should be allowable as a deduction in computing its taxable income. It is not now possible to determine the amount of such discount. The Company has not applied for a ruling with respect to this matter from the Internal Revenue Service upon advice from said counsel and advisors that the Internal Revenue Service would decline to rule on the matter since it involves a question of fact.

Said counsel and advisors have not expressed any opinion with respect to the tax consequences of the Exchange Offer to any Schenley Common Stockholder who is classified as a dealer, or who, for any reason, does not hold his Schenley Common Stock as a capital asset, or to any holder of Schenley Common Stock who is subject to any special provision of the Code by reason of his business, the type of organization involved or the method by which the Schenley Common Stock was acquired, or who does not report his income on a cash basis.

The foregoing opinions have been included herein as a matter of information only and it is assumed that each Schenley Common Stockholder will seek independent advice as to the tax consequences of an exchange hereunder.

**Fractional Interests**

Debentures will be issued in denominations of $100, $500, $1,000 and in integral multiples of $1,000. If the number of shares of Schenley Common Stock tendered for exchange by any Schenley Common Stockholder is not evenly divisible by 1½, the Exchange Agent will, upon the direction of the tendering stockholder, complete such purchase or sale of Schenley Common Stock for the account of such Schenley Common Stockholder as shall be appropriate in the circumstances to permit an even exchange. In completing such purchases and sales, the Exchange Agent will, wherever practicable, match sales orders and purchase orders received from tendering stockholders and any excess or deficiency of such shares will be purchased or sold in the open market or otherwise as the Exchange Agent shall deem appropriate.

**Delisting of Schenley Common Stock**

The Schenley Common Stock is listed on the New York Stock Exchange. The New York Stock Exchange Listing Standards as presently in effect indicate that if the total number of holders of Schenley Common Stock in round lots are less than 900, or if the total number of shares of Common Stock publicly held aggregates less than 400,000 or has an aggregate market value of less than $4,000,000, the New York Stock Exchange would normally give consideration to delisting the issue.

**Compliance With Alcoholic Beverage Laws**

The acquisition by Glen Alden of a substantial number of shares of Schenley Common Stock may require Schenley to file new or amended applications in connection with certain federal, state and other licenses now held by Schenley with respect to its operations in the production and distribution of alcoholic beverages. Glen Alden is not aware of any fact which would prevent approval of such applications. The laws of certain states prohibit persons from holding a direct or indirect interest in both a distiller or wholesaler and a retail liquor licensee. Authorities in the states of New York and New Jersey have notified the parties that prompt corrective action must be taken to eliminate claimed violations of such

laws resulting from the ownership of retail liquor licenses by related corporations of Glen Alden. Glen Alden and such related corporations intend to terminate such interest.

**Possible Transactions Subsequent to the Exchange Offer**

After completion of the Exchange Offer, Glen Alden may (subject to future conditions) make a further tender offer to the remaining holders of Schenley Common Stock or propose to combine Glen Alden and Schenley. In connection with any such further tender offer or combination, the consideration to be received by the holders of Schenley Common Stock who have not accepted the Exchange Offer may be more than, less than, or the same as that provided in the Exchange Offer.

**Accounting Treatment**

The acquisition of shares of Schenley Common Stock acquired by Glen Alden pursuant to the Exchange Offer, together with the shares acquired as hereinafter described under "BACKGROUND OF TRANSACTION", will be treated by Glen Alden for accounting purposes as a "purchase" transaction. Haskins & Sells, independent certified public accountants, have approved this treatment as being in accordance with generally accepted accounting principles.

**Registration Statement**

Glen Alden has filed a Registration Statement in respect of the 6% Sinking Fund Subordinated Debentures to which this Prospectus relates with the Securities and Exchange Commission, Washington, D. C. 20549, under the Securities Act of 1933. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The information so omitted may be obtained in the Commission's principal office in Washington, D. C. upon payment of the fees prescribed by the Commission.

## BACKGROUND OF TRANSACTION

**Purchase of Schenley Common Stock from Lewis S. Rosenstiel and Other Related Sellers**

Pursuant to a purchase agreement dated March 20, 1968 (the "Stock Purchase Agreement"), Glen Alden acquired on that date an aggregate of 1,417,689 shares of Schenley Common Stock, after giving effect to the three for two split (945,126 shares prior to such split), and comprising approximately 18% of the outstanding shares of Schenley Common Stock, from Lewis S. Rosenstiel and six other related sellers therein mentioned (the "Sellers"). The purchase price, after giving effect to such stock split, was $53.33⅓ per share ($80 per share as constituted prior to such split), or an aggregate of $75,610,080, of which $63,813,440 was paid in cash and $11,796,640 was paid in 6% promissory notes, which notes were paid in full on March 27, 1968.

Under the Stock Purchase Agreement, Glen Alden agreed to indemnify the Sellers against and hold them harmless from any loss, cost, liability, damage or expense (including counsel fees and expenses) in connection with or resulting from any claim or claims arising out of or from the sale of the Schenley Common Stock purchased pursuant to the said Stock Purchase Agreement and the related transactions provided in the Stock Purchase Agreement, including, but not limited, to any claim by, for or on behalf of Schenley Industries, Inc. ("Schenley") or any stockholder or stockholders thereof or by any governmental department, agency, board or other authority, excluding claims by a taxing authority for income taxes arising out of the sale of said shares.

Simultaneously with the execution and delivery of the Stock Purchase Agreement, Chemical Bank New York Trust Company (the "Bank") entered into two agreements, one with Lewis S. Rosenstiel and Glen Alden and one with Glen Alden alone (hereinafter collectively referred to as the "Bank Agreements") under which an escrow fund (the "Escrow Fund") was established by Glen Alden with the Bank as Escrow Agent. Said Bank Agreements provide that if Glen Alden becomes obligated to pay moneys under the indemnity provisions of the Stock Purchase Agreement as hereinabove described and if the Bank receives written notice from Mr. Rosenstiel that Glen Alden has failed to make such payment, the Bank will make all such payments to Mr. Rosenstiel up to a maximum of $10,000,000. Simultaneously with the execution of the Bank Agreements, Glen Alden deposited into the Escrow Fund negotiable certificates of deposit in the aggregate principal amount of $5,000,000. Glen Alden is obligated to make further deposits into the Escrow Fund of certificates of deposit or cash in an aggregate

additional amount of $5,000,000, $2,500,000 of which must be delivered no later than December 20, 1968 and $2,500,000 of which must be delivered no later than September 20, 1969. The obligations of the Bank and Glen Alden under the Bank Agreements can be terminated by Glen Alden at any time if it furnishes to Mr. Rosenstiel a $10,000,000 indemnity bond on terms and conditions, and issued by an insurer, satisfactory to Mr. Rosenstiel, covering Glen Alden's obligations under the aforementioned indemnity provisions of the Stock Purchase Agreement. It is further provided in the Bank Agreements that if at any time the Bank is obligated to make payments in excess of the balances at the time held in the Escrow Fund the Bank will make loans to Glen Alden for an aggregate amount equal to the deficiency, but not in excess of an aggregate of $5,000,000.

The Stock Purchase Agreement provides that it is "the intention of the parties" that all of the holders of Schenley Common Stock be afforded an opportunity to sell their shares of Schenley Common Stock for a total consideration comparable to, or more favorable than, the purchase price paid to the Sellers. To carry out this intention, Glen Alden, in the Stock Purchase Agreement, agreed with and for the benefit of the Sellers to make or cause to be made, within a reasonable time, an offer to purchase all other outstanding shares of Schenley Common Stock from the holders thereof on terms not less favorable than the terms of a proposed offer set forth in the Stock Purchase Agreement. The offer specified in the Stock Purchase Agreement consisted of Glen Alden debentures, cash and warrants, and is different than the terms of the Exchange Offer made by this Prospectus. (See also "Federal Income Tax Status".)

**Finders' Fees**

For their services in connection with the entire transaction contemplated by the Stock Purchase Agreement, Glen Alden has agreed unconditionally to pay Mr. Joseph Lubin a fee of $4,000,000, of which $500,000 has been paid and the balance is payable in seven annual installments of $500,000 each, and a further fee to Mr. Jack Rosen in the amount of $1,000,000, of which $200,000 has been paid and the balance is payable in eight annual installments of $100,000 each. Discussions between the management of Glen Alden and Mr. Rosenstiel and his representatives commenced in late 1964 or early 1965, although no negotiations took place between the end of June 1966 and January 1968. The management of Glen Alden is of the opinion that the services rendered by Mr. Lubin and Mr. Rosen in connection with the earlier negotiations contributed materially to the ultimate consummation of the Stock Purchase Agreement. It should be noted, however, that at the request of Glen Alden, whose management desired to conduct the renewed negotiations directly with Mr. Rosenstiel and his representatives, neither Mr. Lubin nor Mr. Rosen (to the knowledge of Glen Alden) participated in the negotiations commencing in February or early March 1968 which led to the consummation of the Stock Purchase Agreement on March 20, 1968.

Neither Mr. Lubin nor Mr. Rosen is a director, officer or employee of Glen Alden and both are wholly unrelated to it. However, in connection with its acquisition of Joseph Cohen & Sons in 1965, Rapid-American Corporation agreed to pay Mr. Lubin a finder's fee of $500,000 plus non-transferable warrants to purchase 75,000 shares of Rapid-American Corporation common stock. Neither Mr. Lubin nor Mr. Rosen is an associate of or related to any officer or director of Glen Alden. Glen Alden has been advised that Mr. Lubin is and since January 1, 1967 has been a partner of Eisner & Lubin, certified public accountants, and that Mr. Rosen is and since January 1, 1967 has been a practicing attorney in New York City. Glen Alden has been advised that Messrs. Eisner & Lubin have in the past acted as tax consultants to Schenley. Except as above noted, Mr. Lubin and Mr. Rosen have each advised Glen Alden that he is not a director, officer or employee of Schenley, that he is wholly unrelated to it, and that he is not an associate of any of its officers or directors. Mr. Lubin and Mr. Rosen have each indemnified Glen Alden against any other claim for a brokerage commission or finders' fee.

**Purchases and Sales of Schenley Common Stock By Glen Alden and Certain Other Persons in 1968**

Between February 1, 1968 and February 23, 1968 Glen Alden acquired in open market purchases on the New York Stock Exchange, through Carter, Berlind & Weill, as broker, 92,700 shares of Schenley Common Stock (139,050 shares after the 3 for 2 split) at prices ranging from $52¼ to $58⅝ per share ($34.83 to $39.08 per share after adjustment for the 3 for 2 split) for an aggregate cost of $5,295,721.

On March 14, 1968, all of the above shares were sold on the New York Stock Exchange through the same brokerage firm at a price of $63 per share ($42 per share after adjustment for 3 for 2 split) or a net price of $5,793,455. Carter, Berlind & Weill, Inc. has advised Glen Alden that the purchaser of these shares was Investors Variable Payment Fund, Inc., a mutual fund affiliated with Investors Diversified Services, Inc. At the time of this sale, Glen Alden was actively negotiating with Mr. Rosenstiel for the purchase of his Schenley Common Stock. Glen Alden made a public announcement of the negotiations with Mr. Rosenstiel on March 15, 1968, and the purchase was consummated on March 20, 1968.

Between April 1 and April 23, 1968 (after the 3 for 2 split of Schenley Common Stock) in open market purchases consummated on the New York Stock Exchange, Rapid-American Corporation acquired 125,000 shares of Schenley Common Stock at an aggregate purchase price of $6,614,709, McCrory Corporation acquired 503,150 shares of such stock at an aggregate purchase price of $27,096,756, and, at the request of Glen Alden, Mr. Sol Kittay (a director and Chairman of the Executive Committee of Glen Alden) together with his son, Jeffrey Kittay, acquired 103,700 shares of Schenley Common Stock at an aggregate purchase price of $5,424,147.

On April 24, 1968, Glen Alden was advised that a substantial block of Schenley Common Stock had been offered for sale on the New York Stock Exchange. Of said block, Glen Alden purchased 110,000 shares at an aggregate purchase price of $5,851,208, McCrory Corporation purchased 116,100 shares at an aggregate purchase price of $6,175,689, and, at Glen Alden's request, a corporation owned by Mr. Charles Bassine purchased 50,000 shares at an aggregate purchase price of $2,659,640. A representative of Glen Alden requested Carter, Berlind & Weill, Inc. to endeavor to find a purchaser or purchasers for all or a substantial part of the balance of said block, and Glen Alden was subsequently advised that Investors Variable Payment Fund, Inc., through Carter, Berlind & Weill, Inc., had purchased 147,150 shares of said block of stock at an aggregate purchase price of $7,827,321. Neither Mr. Bassine nor Investors Variable Payment Fund, Inc. is affiliated with Glen Alden. Also on that day McCrory Corporation purchased on the New York Stock Exchange 69,000 shares of Schenley Common Stock at an aggregate purchase price of $3,670,278.

As a result of the foregoing transactions, Glen Alden, Rapid-American Corporation, McCrory Corporation and Messrs. Kittay hold approximately 31.6% of the outstanding shares of Schenley Common Stock as of June 30, 1968 (including the shares originally acquired by Glen Alden under the Stock Purchase Agreement), a corporation owned by Mr. Charles Bassine acquired less than 1% of said stock and Investors Variable Payment Fund, Inc. acquired approximately 3.7% of said stock.

Glen Alden has been advised by Rapid-American Corporation, McCrory Corporation, the Messrs. Kittay and Mr. Bassine, respectively, that as of August 6, 1968 they owned the number of shares of Schenley Common Stock described above and that as of said date it was their intention to tender all of such shares in exchange for cash and Debentures pursuant to the Exchange Offer described in this Prospectus.

In order to provide funds with which to consummate the acquisition from Lewis S. Rosenstiel (and the related sellers) of the 1,417,689 shares of Schenley Common Stock, Glen Alden borrowed from a number of commercial banks an aggregate of $61,000,000 against unsecured promissory notes maturing on December 31, 1968, which notes bear interest at 3/8 of 1% above prime rates in effect from time to time. The balance of the purchase price for said shares and the purchase price for the 110,000 additional shares of Schenley Common Stock purchased by Glen Alden on the New York Stock Exchange were derived from Glen Alden's general funds, which included the proceeds from the sale of the 92,700 shares of Schenley Common Stock sold by Glen Alden on March 14, 1968 as described above. Glen Alden will also use its general funds, as augmented by a substantial portion of the approximately $44,932,000 net cash consideration received by Glen Alden from the sale of International Latex & Chemical Corporation and certain theatre properties in April 1968, to pay the cash portion of the Exchange Offer made hereby.

Glen Alden plans to refinance in late 1969 or early 1970 a portion of the $61,000,000 short term borrowings referred to in the preceding paragraph from the proceeds of a $35,000,000 insurance company loan commitment which Glen Alden is currently negotiating. (See Note (c) to "Capitalization Table"). Glen Alden expects to continue the unfunded portion of this indebtedness as short term borrowings from the same or other banks.

**Legal Proceedings**

Several legal proceedings described below have been commenced by persons claiming to be stockholders of Schenley with respect to the transactions contemplated by the Stock Purchase Agreement and this Exchange Offer. In each case, indemnification has been claimed under the relevant provisions of the Stock Purchase Agreement.

Three actions have been instituted by Andrew Allen, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 25, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about March 26, 1968) and one in the United States District Court, Southern District of New York (instituted on or about March 25, 1968). In each case the defendants, in addition to Glen Alden, are Schenley and each of its directors. In each case the complaint, in essence, alleges that (a) Glen Alden induced the directors of Schenley to breach their fiduciary obligations in connection with the transactions contemplated by the Stock Purchase Agreement; (b) Glen Alden made certain false and misleading statements with respect to the aforesaid transactions; (c) Glen Alden paid the Sellers a price for their shares of Schenley Common Stock in excess of that proposed to be offered to the other holders of Schenley Common Stock pursuant to the Stock Purchase Agreement; (d) Glen Alden, by such conduct, deprived Schenley of an opportunity to sell its assets and deprived its stockholders of an opportunity to sell their shares at the best obtainable prices; and (e) Schenley's cash and other assets are being utilized by Glen Alden and Lewis S. Rosenstiel to meet the obligations incurred in connection with the transactions contemplated by the Stock Purchase Agreement. In each case the complaint seeks to enjoin Glen Alden from consummating the Exchange Offer and seeks to recover from Glen Alden and the individual defendants their alleged profits and the alleged losses of Schenley and its stockholders, and attorneys' fees. In the case instituted in the United States District Court, the complaint also alleges that the transactions described are in violation of Section 10(b) of the Securities Exchange Act of 1934. Glen Alden has filed answers denying the material allegations of the complaint in the three Allen cases.

Two actions have been instituted by Irving Miller, derivatively on behalf of Schenley and representatively on behalf of its stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about March 26, 1968) and one in the Court of Chancery of the State of Delaware (instituted on or about March 28, 1968). In the "Miller Delaware case", the defendants are substantially the same as those described above in the "Allen cases". The complaint in this case alleges that (a) Glen Alden aided and abetted defendant Lewis S. Rosenstiel in an alleged violation of his fiduciary duties to Schenley and its stockholders by paying to Sellers, pursuant to the Stock Purchase Agreement, an alleged premium for their shares of Schenley Common Stock, (b) the individual defendants agreed, in return for such premium, to give Glen Alden control of the Board of Directors of Schenley and (c) that under an alleged proposed agreement with another corporation Schenley's stockholders would have received a greater price for their shares of Schenley Common Stock. The complaint seeks (i) an injunction against Glen Alden taking control of the Schenley Board of Directors, (ii) to recover the alleged profits made by defendants and (iii) damages for alleged waste as a result of the transactions complained of, and attorneys' fees. Glen Alden has filed an answer denying the material allegations of the complaint in the "Miller Delaware case." In the "Miller New York case" the defendants are the same as in the "Miller Delaware case" except that Glen Alden is not named as a defendant. The allegations of the complaint and the relief sought are substantially the same as in the "Miller Delaware case".

Four actions have been instituted by Alexander Kahan, representatively on behalf of the Schenley Common Stockholders, one in the Supreme Court of the State of New York, New York County (instituted on or about April 1, 1968), one in the Court of Chancery of the State of Delaware (instituted on or about April 1, 1968), one in the United States District Court, Southern District of New York (instituted on or about March 27, 1968) and one in the United States District Court, District of Delaware (instituted on or about March 28, 1968). The two New York actions are also brought derivatively on behalf of Schenley. The defendants in the "Kahan cases" are Glen Alden, the directors of Schenley, the Dorothy H. and Lewis Rosenstiel Foundation and Meshulam Riklis; Schenley is also a defendant in the two "Kahan New York cases". The allegations of the complaints (as amended) in the two "Kahan

New York cases" and the "Kahan Delaware Federal case" are, in essence, that (a) Glen Alden paid Mr. Rosenstiel a premium for his shares of Schenley Common Stock (which premium includes the payments made by Glen Alden to Mr. Lubin and Mr. Rosen); (b) Glen Alden made certain false and misleading statements (including omissions to state material facts) with respect to the transactions contemplated by the Stock Purchase Agreement; and (c) the defendants deprived Schenley's stockholders of the opportunity to sell their shares on terms equal or comparable to those received by Mr. Rosenstiel, or on terms more favorable than those specified in the Exchange Offer. The complaints seek recovery of the alleged premium, recovery of the alleged consideration lost to Schenley's stockholders as a result of their being prevented from selling their stock on more favorable terms, an accounting by all defendants in connection with the described transactions, and attorneys' fees. The allegations of the complaint in the "Kahan Delaware State case" are essentially the same as in the other cases hereinabove mentioned, and the complaint seeks to recover from all defendants the alleged premium paid in connection with the Stock Purchase Agreement and seeks an accounting by all defendants in connection with the described transactions, and attorneys' fees. Glen Alden has filed answers denying the material allegations of the complaints in the "Kahan New York cases". Glen Alden has not yet answered the complaints in the "Kahan Delaware cases".

On or about April 10, 1968, an action was instituted in the Supreme Court of the State of New York, New York County, by Mollie H. Sanders, a stockholder of Glen Alden, allegedly on behalf of Glen Alden, with respect to the Exchange Offer. The defendants are Glen Alden, its directors, McCrory Corporation, and Rapid-American Corporation. The complaint (as amended) alleges, in essence, that (a) Glen Alden will be paying an excessive price for the shares of Schenley Common Stock to be acquired pursuant to the Exchange Offer, consummation of the Exchange Offer will place Glen Alden in an unsound financial position, and the purpose of the Exchange Offer is to personally benefit Meshulam Riklis, Glen Alden's chief executive officer; (b) Glen Alden sold International Latex & Chemical Corporation and several movie theaters at inadequate prices in order to alleviate financial pressures caused by the Exchange Offer; and (c) Sol Kittay (Chairman of the Executive Committee of the Board of Directors of Glen Alden, acting for himself and his son), McCrory Corporation and Rapid-American Corporation purchased Schenley stock as a result of inside information as to whether Glen Alden would make the Exchange Offer, which information was not available to the public or to the public stockholders of Glen Alden, and these defendants intend to accept the Exchange Offer when made by Glen Alden, all to their own profit and in breach of their fiduciary responsibility to Glen Alden. The complaint (as amended) seeks (i) an injunction against the consummation of the Exchange Offer; (ii) an accounting by the defendants other than Glen Alden for all damages sustained by Glen Alden and all profits made by such defendants arising out of the aforesaid transactions; (iii) to impress a trust for the benefit of Glen Alden upon the Schenley stock purchased by Mr. Kittay, McCrory Corporation, and Rapid-American Corporation, and upon any consideration received by these defendants from Glen Alden for such stock; and (iv) attorneys' and accountants' fees, and punitive damages. A motion by the plaintiff in this case for a preliminary injunction against the consummation of the Exchange Offer was denied by the Court on May 14, 1968.

On or about April 29, 1968, an action was instituted in the Supreme Court of the State of New York, New York County by Anne J. Mathes and Harry Lewis, stockholders of Glen Alden, allegedly on behalf of Glen Alden. The defendants, in addition to Glen Alden, are its directors, McCrory Corporation, Rapid-American Corporation, Serge Semenenko, David G. Baird, Joseph Lubin and Jack Rosen. The complaint alleges, in essence (1) that an agreement by Glen Alden to pay Mr. Baird the sum of $3,000,000 for his services in connection with transactions relating to Stanley Warner Corporation is unlawful, since the amount payable is grossly in excess of the value of any services rendered by him to Glen Alden; and (2) that the agreements by Glen Alden to pay Mr. Lubin the sum of $4,000,000 and Mr. Rosen the sum of $1,000,000 for their services in connection with the transactions involving Schenley Common Stock are unlawful, since the amounts payable are grossly in excess of the value of any services rendered by them to Glen Alden. The complaint seeks an injunction against the carrying out of the aforesaid agreements, the cancellation of said agreements, an accounting to Glen Alden by Messrs. Baird, Semenenko, Lubin and Rosen for all payments received under the respective agreements, an accounting by all defendants other than Glen Alden for all damages sustained by Glen Alden and for

all profits made by said defendants arising out of the aforesaid transactions and punitive damages and attorneys' and accountants' fees. Glen Alden has served an answer denying the material allegations in the complaint in this action.

On or about May 2, 1968, an action was instituted in the Court of Chancery of the State of Delaware by Mollie H. Sanders, Anne J. Mathes and Harry Lewis, stockholders of Glen Alden, allegedly on behalf of Glen Alden. The defendants are the same as those in the "Mathes New York case". The complaint, in essence, contains the same allegations as in the Mathes New York case, and also alleges that Glen Alden will be paying an excessive price for the shares of Schenley Common Stock to be acquired pursuant to the Exchange Offer, that consummation of the Exchange Offer will place Glen Alden in an unsound financial position, and that the purpose of the Exchange Offer is to personally benefit Mr. Riklis. The complaint seeks an injunction against the consummation of the Exchange Offer and against the carrying out of the agreements with Messrs. Baird, Lubin and Rosen; the cancellation of such agreements and an accounting by Messrs. Baird, Semenenko, Lubin and Rosen for all payments received thereunder; an accounting by all defendants other than Glen Alden for all damages sustained by Glen Alden and for all profits made by said defendants arising out of the aforesaid transactions; and punitive damages and attorneys' and accountants' fees. Glen Alden has filed an answer denying the material allegations of the complaint in this action.

On or about June 4, 1968, an action was instituted in the Supreme Court of the State of New York, New York County by Melvin Feinberg and Margaret M. Colegrove, stockholders of Glen Alden, allegedly on behalf of Glen Alden and representatively on behalf of the stockholders of Glen Alden. The defendants, in addition to Glen Alden, are its directors, Simon H. Fabian, Samuel Rosen, David G. Baird, Joseph Lubin, and Jack Rosen. The complaint alleges, in essence, that agreements by Glen Alden (1) to pay Mr. Baird the sum of $3,000,000 for his services in connection with transactions relating to Stanley Warner Corporation; (2) to pay Mr. Fabian and Samuel Rosen each $42,000 annually for 10 years in return for an agreement not to compete with Glen Alden; and (3) to pay Mr. Lubin and Mr. Jack Rosen $4,000,000 and $1,000,000, respectively, for their services in connection with the transactions involving Schenley Common Stock, were not bona fide agreements and constituted a gift of the corporate property of Glen Alden. The complaint seeks a declaration cancelling and rescinding all of the aforesaid agreements, an injunction against Glen Alden making any payments pursuant to such agreements, an accounting by the defendants other than Glen Alden for all damages sustained by Glen Alden and all profits made by such defendants arising out of the aforesaid agreements, and attorneys' and accountants' fees. Glen Alden has filed an answer denying the material allegations of the complaint in this action.

The fees paid to Messrs. Baird, Lubin and Jack Rosen are also a subject of two actions instituted by William B. Weinberger, described below under "Legal Proceedings—Glen Alden".

Counsel to Glen Alden, Messrs. Strasser, Spiegelberg, Fried & Frank, have advised that, based upon the facts as presently known to them, to the extent that liability is asserted against Glen Alden, either on its own behalf or as an indemnitor, in their opinion Glen Alden has a meritorious defense to the litigations described above and should prevail.

Glen Alden has for many years carried insurance covering its liability under its indemnification to its officers and directors but has not purchased any insurance specifically related to the litigations described above or to those mentioned under "Legal Proceedings—Glen Alden" appearing elsewhere herein.

In connection with the acquisition of the shares of Schenley Common Stock, purchased from Mr. Lewis S. Rosenstiel (and the other Sellers) pursuant to the Stock Purchase Agreement mentioned above and the Exchange Offer made hereby, the Federal Trade Commission has advised Glen Alden and Schenley that it wishes to examine possible antitrust and related aspects of the transactions and has requested certain information and material.

**Lorillard Corporation Offer**

On April 19, 1968, Lorillard Corporation filed a registration statement with the Securities and Exchange Commission relating to a proposed offer by it to acquire shares of Schenley Common Stock. On May 15, 1968, Lorillard Corporation filed an application with the Securities and Exchange Commission to withdraw its registration statement.

## CONSENT JUDGMENT

On August 7, 1968, upon a complaint filed by the Securities and Exchange Commission and upon the consent of Glen Alden, the United States District Court for the Southern District of New York enjoined Glen Alden, its officers, directors and certain other persons affiliated with it from disclosing material information in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder to any selected person in connection with the market purchase or market sale of securities of Glen Alden or its related companies.

In the complaint in this action, the Securities and Exchange Commission alleged that Glen Alden met with representatives of Investors Diversified Services, Inc. on February 8, 1968 and with representatives of Putnam Growth Fund on March 13, 1968; that these meetings were arranged by Carter, Berlind & Weill, Inc., a registered broker dealer, to permit such representatives to obtain information to assist them in making investment decisions with regard to possible purchases of securities of Glen Alden and its related companies in the open market and that during the course of such meetings and thereafter Glen Alden disclosed material information concerning Glen Alden and its subsidiaries and other companies in which Glen Alden has an interest, which information was not then available nor has been made available to the financial community and the investment public in general. This information is alleged to have included sales, earnings and cash flow projections for Glen Alden and each of its divisions for the years 1968 to 1972, projected acquisitions and other material information concerning Glen Alden and other related companies.

In its consent to the entry of the injunction, Glen Alden did not admit any of the allegations of the complaint and alleged that, to the best of its knowledge and belief, no purchases or sales of securities were made on the basis of any of the information alleged to have been disclosed by it.

## CAPITALIZATION TABLE

The following table sets forth the consolidated capitalization of Glen Alden and Schenley at June 30, 1968 and on a combined basis assuming acquisition by Glen Alden of all outstanding Schenley Common Stock (including shares reserved for issuance on conversion of Schenley Cumulative Preference Stock) on the terms of the Exchange Offer. (Effect has been given to the creation in July 1968 of certain long-term obligations as described in notes (a) and (b) herein.) If Glen Alden were to acquire less than 100% of the outstanding Schenley Common Stock such pro forma capitalization would vary from that set forth below.

| | Glen Alden | Schenley | Pro Forma Combined |
|---|---|---|---|
| Short-term notes payable to banks† | $ 99,872,459(a) | $127,500,000 | $227,372,459(c) |
| Short-term foreign bank loans | 1,711,226 | | 1,711,226 |
| Total | $101,583,685 | $127,500,000 | $229,083,685 |
| Long-term debt (including current maturities): | | | |
| 4⅞% Mortgage and Collateral Trust Sinking Fund Notes, due $625,000 annually through 1978 and balance in 1979 | $ 7,000,000 | | $ 7,000,000 |
| 90-day Promissory Notes, payable to banks under revolving credit agreement, due July 31, 1969 (interest ¼% above prime rate) | 3,000,000(b) | | 3,000,000 |
| 6% Subordinated Promissory Notes, due January 31, 1970 | 9,000,000(b) | | 9,000,000 |
| Notes payable to banks in varying quarterly installments to March 31, 1973 (interest at ⅜% above prime rate)† | 50,000,000(a) | | 50,000,000 |
| 7% Subordinated Convertible Debentures, due July 31, 1973 (convertible into Common Stock at $17.00 per share subject to antidilution provisions) | 17,000,000(b) | | 17,000,000 |
| 2% to 7% indebtedness consisting principally of mortgage and other notes, due 1968 to 1987 | 8,994,535 | | 8,994,535 |
| 6% Sinking Fund Subordinated Debentures, due 1988 | | | 420,914,000 |
| Sundry | 16,380,971 | | 16,380,971 |
| Loans from insurance companies: | | | |
| Due March 1, 1969: | | | |
| At 3.20% | | $ 950,833 | 950,833 |
| At 5.25% | | 2,549,167 | 2,549,167 |
| Due March 1, 1979 at 6.50% | | 71,500,000 | 71,500,000 |
| Due November 1, 1975 at 3% (annual prepayments of $1,250,000 through 1969, and thereafter at $2,000,000 annually until November 1, 1975 when the remaining balance becomes due) | | 13,750,000 | 13,750,000 |
| Total | $111,375,506 | $ 88,750,000 | $621,039,506(c) |

| | Stockholders' Equity | Initial Redemption Value |
|---|---|---|
| Stockholders' Equity at June 30, 1968: | | |
| Preferred Stocks, without par value: | | |
| $2.25 Senior Cumulative Convertible, authorized 724,405 shares, issued and outstanding 442,010 shares at stated value(d) | $ 442,010 | $ 23,205,525 |
| Class B Senior Cumulative Convertible ($3), authorized 2,200,000 shares, issued and outstanding 994,177 shares at stated value(e) | 994,177 | 106,376,939 |
| $3.15 Cumulative Convertible, authorized 1,300,000 shares, issued and outstanding 322,064 shares at stated value(f) | 11,863,693 | 35,427,040 |
| Class C (Contingent Preference), authorized 335,398 shares, issued and outstanding 268,371 shares at stated value(g) | 9,582,373 | 24,153,390 |
| Total Preferred Stocks | 22,882,253 | $189,162,894 |

| | Par Value | Number of Shares Authorized | Number of Shares Issued | |
|---|---|---|---|---|
| Common Stock of Glen Alden | $1 | 36,000,000 | 17,153,186 | 17,153,186 |
| Surplus: | | | | |
| Capital | | | | 103,238,385 |
| Earned | | | | 89,183,699 |
| Less Glen Alden Common Stock in Treasury, at cost—1,142,836 shares | | | | (14,181,580) |
| Total | | | | $218,275,943 |

† Of these notes, an aggregate principal amount of $2,500,000 is held by The Security National Bank of Long Island of which Patrick J. Clifford, a director of Glen Alden, is President.

(a) In July 1968 Glen Alden entered into a $50,000,000 five year term credit with a group of major commercial banks. The proceeds were applied to the reduction of $24,375,000 of short-term borrowings and to the refinancing of $25,625,000 of notes payable to banks which had a final maturity of October 1971. This agreement contains limitations as to working capital, borrowings, declaration and payment of cash dividends, transactions in capital stock, etc. Had this agreement been in effect at June 30, 1968, approximately $12,000,000 of consolidated earned surplus of Glen Alden would have been available for the payment of dividends and redemptions or purchases of capital stock. Glen Alden does not anticipate that the agreement will permit cash dividends on its Common Stock in the immediate future.

(b) During July 1968, a subsidiary of Glen Alden issued $17,000,000 of Seven Per Cent Subordinated Convertible Debentures, due July 31, 1973, of which $7,000,000 principal amount of Debentures were issued to Paribas Corporation, one of the Dealer Managers and to Banque de Paris et des Pays Bas, an affiliate of Paribas Corporation. David Bunim, a director of Glen Alden, is Chairman of the Executive Committee of Paribas Corporation. Proceeds of these debentures will be used to reduce the 90-day Promissory Notes, payable to banks under a revolving credit agreement. The holder of the 6% Subordinated Promissory Notes, due January 31, 1970 has orally agreed to accept, in lieu thereof, an identical convertible debenture to be issued by the same subsidiary.

(c) Glen Alden is currently negotiating a loan commitment of $35,000,000 7¼% 15 year Senior Notes with warrants from a major Insurance Company. According to the letter of intent in respect of this loan, (1) borrowing under the commitment may be made at Glen Alden's option in late 1969 or early 1970, (2) a sinking fund will begin in the sixth year at the rate of 7.2% of original principal amount annually, and (3) at the time of the take-down Glen Alden will issue 15 year warrants to the lender to purchase 700,000 shares of Glen Alden Common Stock at $15 per share. Glen Alden presently plans to use the proceeds from this borrowing to refund short term indebtedness. Glen Alden is attempting to obtain a similar commitment for an additional $15,000,000.

(d) Each share of Senior Stock is convertible, subject to certain adjustments, into 3.5 shares of Common Stock and upon such conversion cannot be reissued.

(e) Each share of Class B Senior Stock is convertible, subject to certain adjustments, into 7 shares of Common Stock.

(f) Each share of Preferred Stock is convertible, subject to certain adjustments, into 7.65 shares of Common Stock.

(g) Under certain circumstances, shares of Class C Stock may for a period of time be converted, subject to certain adjustments, into 9 shares of Common Stock and thereafter may be converted, subject to certain adjustments, into 6.56 shares of Common Stock. Class C Stock consists of the following series, redeemable at $90 per share, and having the following Serial Redemption Dates: Series 2, February 28, 1969, 33,488 shares; Series 3, February 28, 1970, 67,027 shares; Series 4, February 28, 1971, 33,488 shares; Series 5, February 29, 1972, 67,027 shares; Series 6, February 28, 1973, 33,488 shares; Series 7, February 28, 1974, 33,853 shares.

(h) Shares of Glen Alden Common Stock reserved for issuance were as follows:

| | Number of Shares Reserved June 30, 1968 |
|---|---|
| Upon conversion of preferred stocks: | |
| Senior Stock(d) | 1,547,035 |
| Class B Senior Stock(e)* | 7,542,913 |
| Preferred Stock(f)** | 2,754,291 |
| Class C Stock(g) | 2,005,770 |
| Upon exercise of Common Stock options | 596,195 |
| Upon conversion of 7% Subordinated Convertible Debentures(b) | 1,000,000 |
| Total | 15,446,204 |

* Includes shares of Class B Senior Stock reserved for options (83,382).

** Includes shares of Preferred Stock reserved for conversion of 5% Subordinated Convertible Debentures (20,188) and options (17,786).

(i) Maturities of pro forma combined long-term debt during the three years ending June 30, 1971 are approximately as follows: year ending June 30, 1969, $13,483,000; 1970, $20,871,000; and 1971, $16,116,000.

(j) The pro forma combined long-term interest expense for the three years ending June 30, 1971 is approximately as follows: year ending June 30, 1969, $36,790,000; 1970, $36,156,000; and 1971, $34,885,000.

(k) The following summary of combined cash flow for 1967 is based on the amounts in the Pro Forma Statement of Combined Income (Unaudited) included elsewhere herein, adjusted as shown below.

| | |
|---|---|
| Net Income, per pro forma statement of combined income | $19,621,000 |
| Depreciation and amortization | 14,333,000 |
| Deferred income taxes | 803,000 |
| Amortization of debenture discount | 5,261,000 |
| Pro forma cash flow for 1967 | $40,018,000 |

For information concerning obligations under leases of real property, etc. see Note J to Financial Statements of Glen Alden and Note 10 to Financial Statements of Schenley.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## STATEMENT OF CONSOLIDATED INCOME

The following statement of consolidated income of Glen Alden Corporation and subsidiaries has been prepared to include Stanley Warner Corporation and subsidiary companies, The B.V.D. Company, Inc. and consolidated subsidiaries and The Philip Carey Manufacturing Company and subsidiary companies, all acquired during 1967 in transactions accounted for as poolings of interests, as more fully explained in Note 1.

The statement for the years ended December 31, 1966 and 1967 has been examined by and the compilation of the statement for the three years ended December 31, 1965 has been checked by Haskins & Sells, independent certified public accountants, as stated in their opinion, which is based in part upon the reports of other independent public accountants, and is included elsewhere herein. With regard to the unaudited three month period ended March 31, 1968, management believes that all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for such period have been included. Due to the change in reporting periods of companies acquired during 1967 there are no comparable figures for the three months ended March 31, 1967.

This statement should be read in conjunction with its notes and the other financial statements and related notes of Glen Alden included elsewhere herein.

| | Year Ended December 31, | | | | | Three Months Ended March 31, 1968 |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | (Unaudited) |
| **REVENUES:** | | | | | | |
| Net sales | $256,896,431 | $310,328,925 | $358,544,817 | $446,599,966 | $444,218,389 | $120,098,269 |
| Theatre operating revenues | 57,583,048 | 53,702,551 | 50,044,886 | 47,246,952 | 44,000,909 | 12,165,838 |
| Other—net | 3,883,599 | 2,642,019 | 3,083,005 | 3,815,077 | 3,080,957 | 512,051 |
| Total revenues | 318,363,078 | 366,673,495 | 411,672,708 | 497,661,995 | 491,300,255 | 132,776,158 |
| **COSTS AND EXPENSES:** | | | | | | |
| Cost of sales | 176,167,035 | 212,369,470 | 242,734,825 | 303,472,718 | 302,217,067 | 80,675,415 |
| Theatre operating expenses | 40,633,577 | 38,760,181 | 36,648,687 | 32,287,473 | 30,849,045 | 9,389,012 |
| Advertising, selling, general and administrative expenses | 69,428,862 | 78,584,517 | 86,649,786 | 111,799,452 | 114,456,326 | 29,309,616 |
| Depreciation and amortization | 10,058,650 | 10,369,759 | 10,798,256 | 10,846,740 | 10,955,498 | 2,854,858 |
| Interest expense | 3,660,113 | 3,992,887 | 5,498,153 | 6,746,657 | 6,785,528 | 2,490,455 |
| Operating income of discontinued and sold operations (Note 1) | (6,153,248) | (4,536,396) | (2,412,349) | (1,615,890) | (1,723,411) | (597,306) |
| Total costs and expenses | 293,794,989 | 339,540,418 | 379,917,358 | 463,537,150 | 463,540,053 | 124,122,050 |
| **INCOME BEFORE INCOME TAXES AND RELATED CHARGE** | 24,568,089 | 27,133,077 | 31,755,350 | 34,124,845 | 27,760,202 | 8,654,108 |
| **INCOME TAXES AND RELATED CHARGE (Note 2):** | | | | | | |
| Federal income taxes: | | | | | | |
| Current | 4,400,039 | 5,612,044 | 5,929,955 | 6,416,316 | 7,679,194 | 2,590,638 |
| Deferred | 777,436 | 48,283 | 423,188 | 1,231,040 | (191,398) | 218,362 |
| Foreign income taxes | 1,954,740 | 2,660,778 | 2,916,979 | 3,201,195 | 3,117,823 | 719,000 |
| Amount equivalent to reduction in Federal income taxes arising from utilization of operating loss carryovers | 1,778,205 | 2,722,553 | 1,112,844 | 2,508,054 | 265,500 | — |
| Total income taxes and related charge | 8,910,420 | 11,043,658 | 10,382,966 | 13,356,605 | 10,871,119 | 3,528,000 |
| **INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEMS** | 15,657,669 | 16,089,419 | 21,372,384 | 20,768,240 | 16,889,083 | 5,126,108 |
| **MINORITY INTEREST (Note 1)** | 1,649,076 | 2,223,896 | 2,686,297 | [illegible]372,173 | 3,063,749 | (6,748) |
| **INCOME BEFORE EXTRAORDINARY ITEMS** | 14,008,593 | 13,865,523 | 18,686,087 | [illegible]6,067 | 13,825,334 | 5,132,856 |
| **EXTRAORDINARY ITEMS (Note 3)** | 1,945,791 | 5,813,754 | (2,738,563) | 1,217,209 | 3,786,118 | 216,234 |
| **NET INCOME** | 15,954,384 | 19,679,277 | 15,947,524 | 18,613,276 | 17,611,452 | 5,349,090 |
| **PRO FORMA PREFERRED DIVIDEND REQUIREMENTS (Note 4)** | 8,784,033 | 8,851,434 | 8,882,686 | 9,237,480 | 9,478,164 | 1,527,000 |
| **NET INCOME APPLICABLE TO COMMON STOCK** | $ 7,170,351 | $ 10,827,843 | $ 7,064,838 | $ 9,375,796 | $ 8,133,288 | $ 3,822,090 |
| Per share of Common Stock (Note 4): | | | | | | |
| Income before extraordinary items (after pro forma preferred dividend requirements) | $.64 | $ .68 | $1.32 | $1.10 | $ .57 | $ .23 |
| Extraordinary items | .24 | .78 | (.37) | .17 | .49 | .01 |
| Net income | $.88 | $1.46 | $ .95 | $1.27 | $1.06 | $ .24 |
| Pro forma per share of Common Stock (Note 5): | | | | | | |
| Income before extraordinary items | | | | | $ .47 | $ .17 |
| Extraordinary items | | | | | .13 | .01 |
| Net income | | | | | $ .60 | $ .18 |

Reference is here made to Statement of Consolidated Earned Surplus of Glen Alden for information with respect to cash dividends of Glen Alden.

See Notes to Statement of Consolidated Income.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO STATEMENT OF CONSOLIDATED INCOME

**(Information with Respect to the Three Months Ended March 31, 1968 is Unaudited)**

1. PRINCIPLES OF CONSOLIDATION

The accompanying statement of consolidated income includes the operating results of Glen Alden and all subsidiaries except certain foreign subsidiaries whose assets and operations are not significant. Operations of affiliated companies, which are carried on an equity basis, are not significant.

During the year 1967 Glen Alden acquired The B.V.D. Company, Inc., The Philip Carey Manufacturing Company, and Stanley Warner Corporation. These acquisitions, except for purchased interests in Philip Carey and Stanley Warner which create substantially all of the minority interest shown in the accompanying statement of consolidated income, have been accounted for as poolings of interests and retroactive effect has been given to these transactions in the statement of consolidated income.

The accompanying statement of consolidated income for the years 1963 through 1966 includes Glen Alden and Philip Carey for the four years ended December 31, 1966, B.V.D. for the four years ended April 1, 1967 and Stanley Warner for the four years ended August 27, 1966. The 1967 statement of consolidated income includes Glen Alden and Philip Carey for the year ended December 31, 1967, B.V.D. for the nine months ended December 31, 1967 (retail subsidiaries for the eleven months ended December 31, 1967) and Stanley Warner for the year ended August 26, 1967. The results of operations of Stanley Warner and subsidiaries for the period August 27, 1967 through December 31, 1967 ($2,494,577) are not included in the 1967 statement of consolidated income but have been credited directly to earned surplus.

Results of operations of other subsidiaries acquired during the five years ended December 31, 1967 and accounted for as poolings of interests have been reflected from January 1, 1963, with minor exceptions which would not materially affect net income; results of operations of certain other subsidiaries acquired during the five years ended December 31, 1967 and accounted for as purchases have been included from respective dates of acquisition, such results of operations are not substantial in relationship to the consolidated revenues and net income.

Effective January 1, 1966 Glen Alden sold its assets and business related to producing and selling anthracite coal for approximately $12,500,000, represented by cash of $500,000, a $5,775,000 mortgage note receivable, and $100,000 other note receivable and the assumption of certain liabilities by the purchaser. Such sale was recorded as of December 31, 1965. In April 1968 theater properties in California, Texas, and Tennessee and International Latex & Chemical Corporation were sold. Sales and theater operating revenues, cost of sales and theater operating expenses, advertising, selling, general and administrative expenses and operating income of discontinued and sold operations are as follows:

| | Year Ended December 31, | | | | | Three Months Ended |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | March 31, 1968 |
| Net sales and theater operating revenues | $ 86,838,121 | $ 71,054,177 | $ 78,808,018 | $ 50,428,491 | $ 46,490,287 | $ 10,417,846 |
| Cost of sales and theater operating expenses | (73,190,803) | (59,564,382) | (65,984,770) | (40,100,771) | (36,758,524) | (8,241,728) |
| Advertising, selling, general and administrative expenses | (7,494,070) | (6,953,399) | (10,410,899) | (8,711,830) | (8,008,352) | (1,578,812) |
| Operating income of discontinued and sold operations | $ 6,153,248 | $ 4,536,396 | $ 2,412,349 | $ 1,615,890 | $ 1,723,411 | $ 597,306 |

Corporate general and administrative expenses have been allocated to the several divisions and subsidiaries included in continuing and discontinued operations based on management estimates determined by use of various operational factors.

The net sales and net income of the foreign subsidiaries consolidated are as follows:

| | Year Ended December 31, | | | | | Three Months Ended |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | March 31, 1968 |
| Net sales | $27,584,502 | $32,739,172 | $40,666,503 | $52,796,601 | $56,043,787 | $12,581,824 |
| Net income | 1,814,573 | 2,189,377 | 3,857,878 | 3,229,174 | 2,737,828 | 1,034,244 |

The accounts of these subsidiaries stated in foreign currencies have been translated at appropriate exchange rates, and gains or losses, which have not been material, resulting therefrom have been reflected in income.

2. INCOME TAXES AND RELATED CHARGE

The accompanying statement of consolidated income includes, in each period, a charge which represents an estimate of the reduction in Federal income taxes arising from utilization of operating loss carryovers. Extraordinary items include the corresponding credit. Unused net operating loss carryovers of Glen Alden from prior years are not available after December 31, 1966. Capital loss carryovers for tax purposes have negated the tax effects of certain extraordinary items.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME (Continued)

The statement of consolidated income includes the operating results of certain subsidiaries engaged in operations in Puerto Rico. These subsidiaries were granted exemptions, with certain reservations, from Commonwealth of Puerto Rico income taxes covering periods of ten to seventeen years, expiring 1970 to about 1983. If the exemptions had not been granted, the provision for income taxes in the accompanying statement would have been greater by approximately as follows: 1963—$1,295,000; 1964—$1,141,000; 1965—$1,784,000; 1966—$1,813,000; 1967—$1,170,000; and the three months ended March 31, 1968—$626,000.

For income tax purposes accelerated methods of computing depreciation have been availed of. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

Glen Alden has an investment tax credit carry-forward of approximately $700,000 at December 31, 1967 and March 31, 1968. Investment tax credits were applied as reductions of Federal income tax provisions as follows: 1963—$193,000; 1964—$459,000; 1965—$399,000; 1966—$630,000; and 1967—$810,000. In addition, at December 31, 1967 and March 31, 1968 certain subsidiaries have operating loss carryovers of approximately $1,795,000 and $1,615,000, respectively, which may be applied against their future earnings. The loss carryovers expire in: 1970—$445,000; 1971—$835,000; and 1972—$335,000. Glen Alden has approximately $1,000,000 of capital loss carryovers at December 31, 1967 and March 31, 1968, which carryovers expire in 1968.

Consolidated Federal income tax returns of List Industries Corporation (which was merged into Glen Alden on April 21, 1959) and subsidiaries then affiliated with it, for 1958 and the period ended April 21, 1959, have been examined by the Internal Revenue Service. As at December 31, 1966, a reserve was provided for the estimated liability for those years and a related charge of $1,900,000 made to earned surplus.

Certain adjustments to Glen Alden's consolidated taxable income have been proposed by the Internal Revenue Service for years prior to 1962, not resulting in tax liability for those years, but which affect loss carryovers. Glen Alden has not agreed to these adjustments. The consolidated returns of Glen Alden for 1963 through 1965 are currently being examined.

Management and tax counsel are of the opinion that no Federal income taxes are payable through December 31, 1967 and March 31, 1968 except as provided in the accompanying consolidated financial statements.

3. EXTRAORDINARY ITEMS

Extraordinary credits (charges) in the applicable periods were as follows:

| | Year ended December 31, | | | | | Three Months Ended March 31, |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| Profit (loss) on sale of: | | | | | | |
| Common stock of Schenley Industries, Inc. | — | — | — | — | (a)$2,068,990 | $258,822 |
| Coal properties | — | $1,457,765 | $(3,637,835) | — | — | — |
| Capital stock of the American Hardware Corporation | — | 5,451,416 | — | — | — | — |
| Operating assets of the Hubschman Division | — | (1,559,095) | — | — | — | — |
| Mortgage notes and capital stocks of subsidiaries | — | (1,165,839) | (478,018) | — | — | — |
| Provision for losses on miscellaneous assets and for possible Federal income tax assessments | — | (2,464,498) | (127,130) | — | — | — |
| Provision for revaluation of investment in common stock of Briggs Manufacturing Company | — | — | — | $ (750,000) | — | — |
| Equity in net profit (loss) on consummated and anticipated dispositions of marginal theatres and other assets, net of applicable Federal income tax effects (1963—$(52,932); 1965—$(169,586); 1966—$1,656,765; and 1967—$80,724) | $ 167,586 | 1,371,452 | 391,576 | (691,907) | 1,271,809 | (42,588) |
| Amount equivalent to reduction in Federal income taxes arising from utilization of operating loss carryovers | 1,778,205 | 2,722,553 | 1,112,844 | 2,508,054 | 265,500 | — |
| Sundry—net | — | — | — | 151,062 | 179,819 | — |
| Extraordinary items—net credit (charge) | $1,945,791 | $5,813,754 | $(2,738,563) | $1,217,209 | $3,786,118 | $216,234 |

(a) Tax effect negated by the utilization in 1967 of capital-loss carryovers.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME (Concluded)

4. Earnings Per Share of Common Stock

Pro forma preferred dividend requirements for the five years ended December 31, 1967 and the three months ended March 31, 1968 have been computed on the average number of preferred shares considered to be outstanding during each period.

Earnings per share are based upon the average number of shares of Common Stock outstanding during each year assuming the conversion of Class C Stock considered outstanding at each year-end into common stock. Earnings per share for the three months ended March 31, 1968 are based upon the number of shares of Common Stock outstanding at March 31, 1968 (13,710,658 shares) and assumed conversion of Class C Stock (268,371 shares) into Common Stock (2,005,770 shares). No dividend requirement on the Class C Stock has been provided since it is the intention of management not to pay such dividends until the net earnings, as defined, in any fiscal year exceed $25,000,000 (the amount of net earnings required to be achieved in a fiscal year before such Class C dividends become cumulative).

5. Pro Forma Earnings Per Share of Common Stock

Pro forma earnings per share are based upon the average number of shares of Common Stock outstanding (a) assuming the conversion of all preferred and preference stocks together with the elimination of the applicable dividend requirements and (b) assuming the conversion of convertible subordinated debentures and exercise of stock options outstanding into Common Stock giving recognition to the related interest and applicable tax effects.

Supplementary pro forma earnings per share for 1967, based upon the average number of shares of Common Stock outstanding during the year (a) assuming the conversion of Class C Stock and (b) reflecting the conversion of approximately 1,100,000 shares of preferred stock into approximately 8,000,000 shares of Common Stock which occurred during the first quarter of 1968, is as follows:

| | |
|---|---|
| Income before extraordinary items, but after preferred dividend requirements on stocks not converted | $ .52 |
| Extraordinary items | .25 |
| Net income | $ .77 |

6. Reconciliations of Total Revenues and Net Income Previously Reported to Glen Alden Shareholders and Retroactive Adjustments Necessary to Reflect Poolings of Interests and Sales of Businesses are as Follows:

| | Year Ended December 31, | | | | | Three Months Ended March 31, |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
| | (In Thousands) | | | | | |
| Total revenues, as previously reported | $121,379 | $100,493 | $ 81,144 | $ 56,279 | $537,790 | $143,194 |
| Add (Deduct) Revenues of: | | | | | | |
| Companies acquired in poolings of interests: | | | | | | |
| Philip Carey | 69,544 | 76,110 | 78,641 | 81,006 | | |
| B. V. D. | 67,748 | 105,024 | 139,233 | 186,167 | | |
| Stanley Warner | 146,530 | 156,101 | 191,462 | 224,638 | | |
| Businesses sold | (86,838) | (71,054) | (78,807) | (50,428) | (46,490) | (10,418) |
| Total revenues, per accompanying statement of consolidated income | $318,363 | $366,674 | $411,673 | $497,662 | $491,300 | $132,776 |
| Net income, as previously reported | $ 7,899 | $ 9,777 | $ 3,313 | $ 6,464 | | |
| Add—Net income of companies acquired in poolings of interests, net of purchased interests: | | | | | | |
| Philip Carey | 1,547 | 2,240 | 1,877 | 2,068 | | |
| B. V. D. | 4,023 | 5,104 | 6,742 | 5,216 | | |
| Stanley Warner | 2,485 | 2,558 | 4,016 | 4,865 | | |
| Net income, per accompanying statement of consolidated income | $ 15,954 | $ 19,679 | $ 15,948 | $ 18,613 | | |

The decline in 1967 in income before extraordinary items was due principally to the following factors: (a) Philip Carey operations were affected by the depressed condition of a large segment of the construction industry; (b) B. V. D. operations are included only for the nine months ended December 31, 1967 (retail subsidiaries for the eleven months ended December 31, 1967); and (c) theatre operations generally were affected by an industry-wide shortage of quality films and increased competition from other leisure-time activities.

In the opinion of the management of Glen Alden, the following unaudited figures for the six months ended June 30, 1968 include all adjustments, which included only normal recurring accruals, necessary to present fairly the consolidated earnings for such period:

| | Six Months Ended June 30, 1968 (Unaudited) (1) | | |
|---|---|---|---|
| Total revenues(2) | $273,804,000 | | |
| | | Per Share(3) | Pro Forma Per Share(4) |
| Income before extraordinary items | $ 9,406,000 | $ .45 | $ .32 |
| Extraordinary items | 570,000 | .04 | .02 |
| Net income | 9,976,000 | | |
| Preferred dividend requirement | 2,970,000 | | |
| Net income applicable to common stock | $ 7,006,000 | $ .49 | $ .34 |

(1) Due to the change in reporting periods of companies acquired during 1967 there are no comparable figures for the six months ended June 30, 1967.

(2) Excludes revenues of theater properties in California, Texas and Tennessee and International Latex & Chemical Corporation sold during April 1968.

(3) Based upon the average number of shares of Common Stock outstanding for the six month period ended June 30, 1968 (12,198,051 shares) and assumed conversion of Class C Stock (268,371 shares) into Common Stock (2,005,770 shares).

(4) Pro forma earnings per share are based upon the number of shares of Common Stock outstanding June 30, 1968 (a) assuming the conversion of all preferred and preference stocks together with the elimination of the applicable dividend requirements and (b) assuming the conversion of convertible subordinated debentures and exercise of stock options outstanding into Common Stock giving recognition to the related interest and applicable tax effects.

Because certain of Glen Alden's businesses are seasonal in character, the operating results for the unaudited six months ended June 30, 1968, may not be proportionately indicative of operating results which may normally be expected for a full fiscal year.

## DIVIDEND AND INTEREST REQUIREMENTS OF GLEN ALDEN

The aggregate annual preferred dividend requirements of Glen Alden based on outstanding shares of its Senior Stock, Class B Senior Stock and Preferred Stock on June 30, 1968 are approximately $4,992,000. Should Glen Alden achieve net income (as defined) of $25,000,000 or more for 1968, preferential dividends on the Class C Stock in the amount of $845,369 would become payable for the year 1969. Said computation is based on the number of shares of Class C Stock outstanding on June 30, 1968.

The annual interest requirements on $420,914,000 principal amount of 6% Sinking Fund Subordinated Debentures will initially be approximately $25,255,000.

On March 27, 1968, the Board of Directors determined not to pay Glen Alden's quarterly cash dividend on its Common Stock, in the light of the cash requirements of the Exchange Offer and related transactions. Glen Alden's policy with respect to the payment of dividends on its Common Stock, including stock dividends, will be reviewed from time to time by the Board of Directors, giving consideration to Glen Alden's earnings, financial condition and other relevant factors.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENT OF CONSOLIDATED INCOME

The following statement of consolidated income of Schenley and its subsidiaries for the five years ended August 31, 1967, has been examined by Arthur Andersen & Co., independent public accountants, whose report is based in part on the reports of other auditors, as set forth in their report included elsewhere in this Prospectus. The statement of consolidated income for the nine months ended May 31, 1967 and 1968 (including the related notes), not examined by independent public accountants, reflects in the opinion of Schenley all adjustments (which included only normal recurring adjustments) necessary to present fairly the income for such periods. This statement should be read in conjunction with the financial statements and related notes appearing elsewhere in this Prospectus.

| | Fiscal Years Ended August 31 (Note a) | | | | | Nine Months Ended May 31 (Note a) | |
|---|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1967 | 1968 |
| | | | (Audited) | | | (Unaudited) | |
| Revenue: | | | | | | | |
| Net sales (Note b) | $400,394,664 | $405,785,535 | $460,762,963 | $477,873,230 | $517,996,185 | $402,846,886 | $418,057,869 |
| Other income—Net | 395,601 | 409,526 | 713,777 | 1,243,947 | 1,506,228 | 1,116,770 | 1,068,862 |
| | 400,790,265 | 406,195,061 | 461,476,740 | 479,117,177 | 519,502,413 | 403,963,656 | 419,126,731 |
| Income deductions (Note 11): | | | | | | | |
| Cost of goods sold (Notes b and 2) | 329,737,297 | 331,452,967 | 361,399,187 | 372,321,531 | 403,930,555 | 314,659,259 | 321,135,133 |
| Selling, advertising and administrative expenses | 47,135,496 | 51,954,917 | 59,963,670 | 59,544,392 | 64,775,393 | 49,533,982 | 56,021,419 |
| Interest charges | 6,585,415 | 5,527,290 | 6,993,172 | 8,874,944 | 9,581,945 | 7,264,138 | 8,300,617 |
| Minority interest in the net income of The Buckingham Corporation (Notes a and 1) | — | — | 2,597,822 | 2,953,831 | 3,480,758 | 2,694,514 | 2,852,494 |
| | 383,458,208 | 388,935,174 | 430,953,851 | 443,694,698 | 481,768,651 | 374,151,893 | 388,309,663 |
| | 17,332,057 | 17,259,887 | 30,522,889 | 35,422,479 | 37,733,762 | 29,811,763 | 30,817,068 |
| Provision for taxes on income (Notes 3 and 4): | | | | | | | |
| United States | 7,418,247 | 6,625,093 | 13,085,478 | 15,019,888 | 16,467,945 | 13,131,528 | 12,834,446 |
| Canada | 721,753 | 1,324,907 | 1,184,522 | 1,610,112 | 1,862,055 | 1,278,472 | 2,455,554 |
| | 8,140,000 | 7,950,000 | 14,270,000 | 16,630,000 | 18,330,000 | 14,[illegible]000 | 15,290,000 |
| | 9,192,057 | 9,309,887 | 16,252,889 | 18,792,479 | 19,403,762 | 15,[illegible],63 | 15,527,068 |
| Equity in net income of Seager Evans & Co., Ltd. (Notes a and 1) | 1,118,777 | 1,097,676 | 1,483,565 | 1,677,264 | 1,680,044 | 1,320,000 | 1,010,000 |
| Income before extraordinary items | 10,310,834 | 10,407,563 | 17,736,454 | 20,469,743 | 21,083,806 | 16,721,763 | 16,537,068 |
| Extraordinary items (Note c) | 1,326,052 | 911,238 | 6,224,192 | — | 1,642,062 | 1,642,062 | — |
| Net income (Note c) | 11,636,886 | 11,318,801 | 23,960,646 | 20,469,743 | 22,725,868 | 18,363,825 | 16,537,068 |
| Preference dividend requirements | 475,214 | 476,084 | 477,038 | 478,219 | 325,462 | 244,262 | 209,466 |
| Net income available to common stock | $ 11,161,672 | $ 10,842,717 | $ 23,483,608 | $ 19,991,524 | $ 22,400,406 | $ 18,119,563 | $ 16,327,602 |
| Average common shares outstanding—(Note d) | 8,911,674 | 8,924,637 | 8,265,182 | 7,518,146 | 7,631,628 | 7,615,312 | 7,707,639 |
| Per share of common stock (after preference dividend requirements) (Note d): | | | | | | | |
| Income before extraordinary items | $1.10 | $1.11 | $2.09 | $2.65 | $2.72 | $2.16 | $2.11 |
| Extraordinary items | .15 | .10 | .75 | — | .21 | .21 | — |
| Net income | $1.25 | $1.21 | $2.84 | $2.65 | $2.93 | $2.37 | $2.11 |
| Cash dividends | $ .66⅔ | $ .66⅔ | $ .66⅔ | $1.13⅓ | $ .93⅓ | $. 70 | $ .92½ |

Numerical note references pertain to notes to the consolidated financial statements of Schenley included elsewhere in this Prospectus.



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## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO STATEMENT OF CONSOLIDATED INCOME
**(Including Notes Applicable to Unaudited Periods)**

(a) *Principles of consolidation:*

All significant subsidiary companies (other than Seager Evans & Co., Ltd.) have been consolidated including the accounts of The Buckingham Corporation since August 31, 1964, the date of Schenley Industries, Inc.'s (Schenley) purchase of 52.66% of Buckingham's outstanding capital stock. Reference is made to Exhibit II to the financial statements of Schenley which sets forth Buckingham's net sales, operating expenses and the net income attributable to Schenley's interest for the three years ended August 31, 1967 and the nine months ended May 31, 1967 and 1968.

The accounts of Seager Evans & Co., Ltd., a subsidiary in Great Britain in which Schenley owns 75% of the outstanding capital stock, have not been consolidated herein. Effective for the year ended August 31, 1965, Schenley adopted the policy of stating its investment at its equity in underlying net assets, and including in consolidated income its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager Evans. Schenley previously carried this investment at cost and included in consolidated net income only the dividends received. Retroactive application of this change in accounting policy had the effect of increasing net income as previously reported by $1,118,777 for the fiscal year ended August 31, 1963 and $891,876 for the fiscal year ended August 31, 1964.

Reference is made to Note 1 to the Consolidated Financial Statements included elsewhere in this Prospectus for further details.

(b) Net sales and cost of goods sold for the five years ended August 31, 1967 (audited) and the nine months ended May 31, 1967 and 1968 (unaudited), include Federal excise taxes, import duties and state liquor taxes as follows:

| Year Ended August 31, | Amount |
|---|---|
| 1963 | $242,000,000 |
| 1964 | 243,000,000 |
| 1965 | 247,000,000 |
| 1966 | 258,000,000 |
| 1967 | 259,000,000 |
| **Nine Months Ended May 31,** | |
| 1967 | $205,000,000 |
| 1968 | 207,000,000 |

(c) Extraordinary items consist of the following:

| Year Ended August 31, | Description | Total Gain | Federal Income Taxes | Gain as Reported |
|---|---|---|---|---|
| 1963 | Gains on sales of securities and other property | $1,766,052 | $ 440,000 | $1,326,052 |
| 1964 | Gains on sales of securities | 1,006,238 | 95,000 | 911,238 |
| 1965 | Gains on sales of securities | 4,724,192 | 1,180,000 | 3,544,192 |
| | Gain on sale of assets and business of a subsidiary | 3,570,000 | 890,000 | 2,680,000 |
| | | 8,294,192 | 2,070,000 | 6,224,192 |
| **Nine months ended May 31 and Year ended August 31** | | | | |
| 1967 | Gain on sale of real estate | 2,190,062 | 548,000 | 1,642,062 |

In order to determine the total gain shown above, proceeds from the sales were reduced by cost, determined on a specific identification basis.

To conform to the recent pronouncement of the Accounting Principles Board of the American Institute of Certified Public Accountants, net income as previously reported for the fiscal years ended August 31, 1963 through 1965 has been restated to reflect the gains set forth above.

(d) The per share of common stock information reflects the effect of the 3 for 2 common stock split which was effective at the close of business on March 21, 1968.

## PRO FORMA STATEMENT OF COMBINED INCOME (Unaudited)

The following pro forma statement of combined income represents the combination of the amounts shown in the Statement of Consolidated Income of Glen Alden Corporation and Subsidiaries for the year ended December 31, 1967, with the amounts shown in the Statement of Consolidated Income of Schenley Industries, Inc. and Subsidiary Companies for the year ended August 31, 1967; adjusted as shown below. This pro forma statement of combined income should be read in conjunction with the separate financial statements and notes thereto included elsewhere herein. If Glen Alden were to acquire less than 100% of the outstanding Schenley Common Stock, such pro forma statement of combined income would vary from that set forth below to the extent that pro forma net income would be reduced by approximately $10,000 for each 1% of such outstanding Schenley Common Stock (exclusive of the number of said shares now held by Glen Alden) not tendered to Glen Alden under the Exchange Offer.

| | Glen Alden | Schenley | Pro forma Combined |
|---|---|---|---|
| | | (In Thousands) | |
| REVENUES: | | | |
| Sales | $444,218 | $517,996 | $ 962,214 |
| Theatre operating revenues | 44,001 | — | 44,001 |
| Other income—net | 3,081 | 1,506 | 4,587 |
| | 491,300 | 519,502 | 1,010,802 |
| EXPENSES: | | | |
| Cost of sales (including Glen Alden depreciation and amortization) | 313,172 | 403,930 | 717,102 |
| Theatre operating expenses | 30,849 | — | 30,849 |
| Selling, advertising, general and administrative expenses | 114,456 | 64,775 | 179,231 |
| Interest expense | 6,786 | 9,582 | 16,368 |
| Operating income of discontinued and sold operations | (1,723) | — | (1,723) |
| | 463,540 | 478,287 | 941,827 |
| | 27,760 | 41,215 | 68,975 |
| Equity in Income of Seager Evans & Co. Ltd. | — | 1,680 | 1,680 |
| | 27,760 | 42,895 | 70,655 |
| Provision for taxes on income | 10,871 | 18,330 | 29,201 |
| Income before minority interest and extraordinary items | 16,889 | 24,565 | 41,454 |
| Deduct minority interest in net income of consolidated subsidiaries | 3,064 | 3,481 | 6,545 |
| Income before extraordinary items | 13,825 | 21,084 | 34,909 |
| Extraordinary items | 3,786 | 1,642 | 5,428 |
| Combined net income before adjustment for pro forma interest and discount | $ 17,611 | $ 22,726 | 40,337 |
| ADJUSTMENT FOR PRO FORMA INTEREST AND DISCOUNT: | | | |
| Estimated interest expense (or loss of interest income) at rate of 6⅞% on $75,610,000 expended in connection with initial acquisition of Schenley Common Stock and on the estimated cash portion of the Exchange Offer, approximately $60,000,000 | | | 9,323 |
| Interest on $420,914,000 principal amount of 6% Sinking Fund Subordinated Debentures issuable upon 100% acceptance of the Exchange Offer | | | 25,255 |
| Amortization of debenture discount (estimated to be an aggregate of $105,229,000 over the 20 year life of the debentures) | | | 5,261 |
| Less—Estimated Federal income tax benefit of deduction for interest and debenture discount amortization | | | (19,123) |
| Total pro forma interest and discount—net of Federal income tax benefit | | | 20,716 |
| Pro forma net income | | | $ 19,621 |

Reference is made to Note 4 to Pro Forma Combined Balance Sheet included elsewhere herein.

Operating income in the above statement has not been adjusted to give effect to sales in April 1968 of certain theatre properties and International Latex & Chemical Corporation. Glen Alden is of the opinion that utilization of the proceeds of such sales would more than compensate for the loss of operating income resulting therefrom.

## COMPARATIVE DATA

**Market Prices of Schenley Common Stock**

The following table sets forth the high and low sales prices of Schenley Common Stock on the New York Stock Exchange (taken from published sources), adjusted to give effect to the 3 for 2 stock split in March 1968, for the periods indicated below:

| | High | Low |
|---|---|---|
| Calendar Year: | | |
| 1965 | $26⅝ | $14⅞ |
| 1966 | 29⅞ | 16⅝ |
| 1967 | 46¼ | 20½ |
| 1968: | | |
| January | 37⅞ | 32⅛ |
| February | 39⅜ | 34⅜ |
| March | 44⅞ | 35 |
| April | 54⅛ | 45 |
| May | 49⅞ | 47½ |
| June | 49¼ | 46⅛ |
| July | 49⅜ | 45¾ |
| August 6, Closing Price | $49¼ | |

**Dividends Per Share**

Dividends per one and one-half shares of Schenley Common Stock (after giving effect to the 3 for 2 stock split in March 1968) for the last five fiscal years are as follows:

| Year ended August 31: | |
|---|---|
| 1963 | $1.00 |
| 1964 | 1.00 |
| 1965 | 1.00 |
| 1966 | 1.70 |
| 1967 | 1.40 |

On March 28, 1968, the Board of Directors of Schenley announced an increase in the quarterly dividend rate on the Schenley Common Stock which would result in an annual dividend rate of $1.95 per one and one-half (1½) shares of Schenley Common Stock after giving effect to the three for two stock split in March, 1968.

Annual interest income on $100 principal amount of 6% Sinking Fund Subordinated Debentures is $6; in addition an exchanging stockholder will have the use of the cash payment of $13.

## DESCRIPTION OF DEBENTURES

The statements under this caption relating to the Debentures and the Indenture are summarized and do not purport to be complete. Such summaries make use of terms defined in the Indenture and are qualified in their entirety by express reference to the Indenture and the cited provisions thereof, a copy of which is filed as an exhibit to the Registration Statement.

The Debentures will be issued under an Indenture (a copy of which has been filed as an exhibit to the Registration Statement) between Glen Alden and Marine Midland Grace Trust Company of New York, Trustee, to be dated as of August 8, 1968, which authorizes an aggregate principal amount of $500,000,000. The Debentures will bear interest from September 1, 1968 at the rate of 6% per year, payable on the 15th day of February and August in each year commencing February 15, 1969, and will be due on August 15, 1988. All the Debentures are to be fully registered; none are to be in coupon form. They are to be issued in denominations of $100, $500, $1,000, any integral multiple of $1,000, and

such other denominations as may be provided for in the Indenture or as may from time to time be authorized by Glen Alden. The Trustee is paying agent and agent for registry and transfer of the Debentures.

**Redemption Provisions**

The Debentures may be redeemed, at the option of Glen Alden, as a whole or from time to time in part, at any time prior to maturity at their principal amount together with interest to the date fixed for redemption. Notice of redempion shall be given by sending notice thereof by mail, to the registered holders of Debentures to be redeemed, not less than 20 nor more than 60 days prior to the date fixed for redemption. If less than all of the Debentures are to be redeemed, the Debentures to be redeemed shall be selected by the trustee by lot or otherwise in such manner as it, in its sole discretion, deems appropriate and fair. However, Debentures in denominations of more than $1,000 may be redeemed either in whole or in part in multiples of $1,000 only, and no Debentures in a denomination of $1,000 or less may be redeemed in part.

**Subordination Provisions**

The indebtedness to be evidenced by the Debentures will be subordinated to all Senior Indebtedness and Superior Indebtedness. Senior Indebtedness is defined as: indebtedness for money borrowed which Glen Alden is or may be liable to repay to the extent such indebtedness is designated as Senior Indebtedness. Superior Indebtedness is defined as any indebtedness for money borrowed which Glen Alden is or may be liable to repay, to the extent such indebtedness is designated as Superior Indebtedness.

As of June 30, 1968 Glen Alden's aggregate pro forma consolidated indebtedness (including borrowings to be made in connection with the Exchange Offer and indebtedness of Schenley) included approximately $150,372,000 of Senior Indebtedness (as so defined) and approximately $278,175,000 of indebtedness which constituted a prior claim against certain subsidiaries of Glen Alden. On the same date, Glen Alden had no Superior Indebtedness. Upon any insolvency, bankruptcy or the like, and upon any other winding-up, the indebtedness to be evidenced by the Debentures will not be paid until the payment in full, or the making of due provision for such payment, of all Senior and Superior Indebtedness. In such circumstances, any payments to which the holders of the Debentures would otherwise be entitled will not be paid until all Senior and Superior Indebtedness have been paid in full, or until due provision has been made for such payment. The Indenture also provides that no payment may be made on account of principal, Sinking Fund or interest on the Debentures unless full payment of all amounts then due on Senior Indebtedness has been made or duly provided for, or if there exists any default under Senior Indebtedness so as to entitle the holder of such Senior Indebtedness to declare its principal to be due and payable, or if there exists a default under the Indenture and the Debentures have been declared due and payable, until all Senior Indebtedness has been paid in full or due provision has been made for such payment.

After full payment or provision for payment of the Senior and Superior Indebtedness, the holders of the Debentures will be entitled to share ratably in the assets of Glen Alden in insolvency, bankruptcy, or the like, and upon any other winding-up, upon an equal basis with other creditors. By reason of the subordination of the Debentures to Senior and Superior Indebtedness, creditors of Glen Alden who are not holders of Senior or Superior Indebtedness or of the Debentures may recover less, ratably, in the event of insolvency, bankruptcy or the like, than holders of Senior or Superior Indebtedness, and may recover more, ratably, than holders of the Debentures.

**Restrictions on Dividends and Additional Indebtedness and Other Matters**

The Indenture does not restrict Glen Alden's right to incur additional long term debt or to pay dividends and does not contain any financial restrictions or requirements except that no dividends may be declared or paid on Glen Alden's Common Stock during the continuance of an Event of Default under the Indenture.

**Conversion Provisions**

The Debentures are not convertible.

**Sinking Fund**

Glen Alden is obligated on or before August 15, 1979, and annually on or before August 15 of each year thereafter to and including August 15, 1987, to make payment to the Trustee of an amount sufficient to redeem a portion of the initial aggregate principal amount of Debentures as follows:

| Year | Percentage |
|---|---|
| 1979 | 1% |
| 1980 | 2% |
| 1981 | 3% |
| 1982 | 4% |
| 1983 | 5% |
| 1984 | 6% |
| 1985 | 7% |
| 1986 | 8% |
| 1987 | 14% |

Such sinking fund payments may be reduced in any year by the principal amount of Debentures theretofore acquired or redeemed by Glen Alden other than through operation of the sinking fund and not theretofore made the basis for such a reduction. Notice of redemption through the sinking fund shall be given, and selection of the Debentures to be redeemed shall be made, in the same manner as described for voluntary redemption under the caption "Redemption Provisions" above.

**Events of Default**

Subject to certain grace periods and notice requirements, default in the payment of any instalment of interest or sinking fund when due which continues uncured for a period of 30 days after written notice by the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding, or default in the payment of principal of any Debentures when due which continues uncured for a period of 30 days after such notice, or bankruptcy, insolvency or similar adjudication against Glen Alden which remains undischarged and unstayed for a period of 90 days, or the institution of such proceedings voluntarily by Glen Alden or its consent thereto, or default under any other covenant contained in the Indenture which continues uncured for a period of 90 days after written notice by the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding, all constitute defaults under the Indenture upon the occurrence of which the Trustee or the holders of not less than 30% in principal amount of the Debentures outstanding may declare the principal of all of the Debentures then outstanding to be due and payable immediately; provided that, if all defaults shall have been cured before any judgment shall have been obtained against Glen Alden, the holders of a majority in principal amount may waive such defaults and rescind such declaration. Glen Alden is required to deliver annually to the Trustee a certificate as to the absence of any default under the Indenture.

No holder of any Debenture shall have the right to institute suit to enforce the Indenture unless (1) the holders of at least 30% in principal amount of the Debentures have requested the Trustee to institute suit and have offered to provide the Trustee with adequate indemnity against expenses and liability in connection with such suit, and (2) the Trustee shall have failed to institute such suit for 60 days after receipt of such request and offer of indemnity.

The right of each holder of the Debentures to enforce his rights to receive payment of the Debentures on account of interest and principal shall not be impaired without his consent. The holders of a majority in aggregate principal amount of Debentures outstanding have the right to direct the time,

method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee. The sole obligation of the Trustee in the case of an event of default (as defined in the Indenture) which has not been cured will be to exercise such of the rights and powers vested in it by the Indenture, and to use the same degree of care and skill in their exercise or use, as a prudent man would exercise and use under the circumstances in the conduct of his own affairs.

**Modification of the Indenture**

The obligations of Glen Alden and the rights of the Debenture holders may be modified with the consent of Glen Alden and of the holders of not less than 66⅔% in principal amount of the Debentures at the time outstanding; provided that no extension of the maturity of any Debenture, no reduction of the rate, or extension of time of payment, of interest thereon, no reduction of the principal amount thereof, and no reduction of the percentage required for modification will be effective against any holder without his consent.

# GLEN ALDEN CORPORATION
## HISTORY AND BUSINESS

### General

Glen Alden Corporation, a Delaware corporation organized in September 1966, is the successor to the former Glen Alden Corporation, a Pennsylvania corporation. In May 1967 Glen Alden acquired the assets and business of The B.V.D. Company, Inc. ("B.V.D.") and in June 1967 The Philip Carey Manufacturing Company ("Philip Carey") merged into Glen Alden. In December 1967 Stanley Warner Corporation ("Warner") merged into Glen Alden. The business of B.V.D. and Philip Carey are now carried on by wholly-owned subsidiaries of Glen Alden. The theatre and television business of Warner is now carried on, through a number of wholly-owned subsidiaries, by the RKO-Stanley Warner Theatres Division of Glen Alden, and the balance of Warner's business is now principally carried on by wholly-owned subsidiaries of International Latex Corporation, which, in turn, is a wholly-owned subsidiary of Glen Alden. For a description of the foregoing transactions, see below "Recent Transactions".

Until 1955 the principal business of the former Glen Alden Corporation was the production and marketing of anthracite coal. During the early 1950's, the declining market for anthracite coal resulted in coal operating losses and, as appears below, this business was sold on February 18, 1966. As a result of the B.V.D., Philip Carey, and Warner acquisitions referred to above and several earlier acquisitions and dispositions of businesses, Glen Alden is now engaged (a) through a subsidiary, International Playtex Corporation (which, together with its subsidiaries is sometimes referred to herein as "Playtex"), in the manufacture and sale of a variety of consumer products under the label *"Playtex"* and other trademarks, (b) through its subsidiary, B.V.D., in the operation of a chain of men's and boys' furnishings shops and the manufacture of clothing and furnishings of various types (principally men's and boys' wear under such trademarks as *"Timely Clothes," "B.V.D.," "Alligator," "Fabiani"* and several others), (c) through its RKO-Stanley Warner Theatres Division, in the operation of approximately 132 motion picture theatres and one VHF television station, (d) through its subsidiary, Philip Carey, in the mining of asbestos fibers, the manufacture and sale of roofing and industrial products and a line of miscellaneous fabricated household products, (e) through three subsidiaries, in the manufacture and sale of a variety of textiles (both apparel and industrial) and (f) through a subsidiary, ILC Industries, Inc., in the research, development and manufacture of a variety of products for industrial users, the United States Government and other governmental agencies, including the production of space suits for the Apollo Project.

### Competition

Each of the various subsidiaries and divisions of Glen Alden faces substantial competition in almost all of its activities and with respect to most of its products. In the fabric lines, competition arises mainly from domestic suppliers, some of which have much greater volume and more diversified lines. Foreign fabrics and apparel also provide an additional direct and indirect competition, and cotton and synthetic fabrics manufactured and sold by Glen Alden compete to some extent with similar products made of jute, sisal and paper.

Substantially all of B.V.D.'s business is highly competitive. In some cases B.V.D.'s products (such as women's lingerie, sleepwear, bras and foundation garments, men's neckwear and other similar items) are subject to changes in fashion and design, whereas most of the balance of the items sold by B.V.D., such as men's and boys' clothing, rainwear, work clothes and the like, are relatively stable.

Playtex faces strong competition with respect to all of the consumer products which it manufactures and sells. Management believes, on the basis of information available to it, that in 1967, Playtex ranked among the leaders in the United States in the sale of bras and girdles, household latex gloves and disposable baby bottles. ILC Industries, Inc. faces vigorous competition with respect to United States Government contract awards.

### Divisional Sales and Profits

The following table shows the percentage contribution of Glen Alden's present principal subdivisions which contribute 5% or more to the consolidated net sales or operating profit (before deducting

minority interests) of Glen Alden for the year 1967. The table reflects operations of Glen Alden and Philip Carey for the year 1967, of B.V.D. for the nine months ended December 31, 1967 (retail subsidiaries for the eleven months ended December 31, 1967) and of Warner for fiscal year ended August 26, 1967. Effect has been given to the sales in April 1968 of theatre properties in California, Texas and Tennessee and of International Latex & Chemical Corporation. The table does not reflect extraordinary items.

| | Net Sales | Operating Profit |
|---|---|---|
| Playtex Division | 30.9% | 53.4% |
| B.V.D. | 32.1 | 12.6 |
| Theatres and Television | 9.1 | 4.8 |
| Philip Carey | 17.4 | 10.1 |
| Textiles | 8.2 | 17.4 |

**Playtex Division**

*Products*

Playtex's sales of consumer products have expanded from approximately $30,000,000 in 1954 to approximately $151,000,000 for the fiscal year ended August 26, 1967. These consumer products fall generally into two categories: (a) ladies foundation garments (bras and girdles made from both natural and man-made fabrics, as well as natural and synthetic latex) sold under the *"Playtex"* and *"Sarong"* trademarks; and (b) a line generally characterized as "family products" including baby pants, disposable baby nursing bottles, disposable diaper pads, swim caps, latex gloves and tooth brushes, all sold under the *"Playtex"* trademark and other trademarks, including *"Tek"* (the *"Tek"* line was acquired in May of 1966).

The line of ladies' foundation garments is designed for mass marketing and accordingly Playtex has limited its production to a comparatively small number of styles which avoid fashion extremes. The foundation garments as described above are manufactured and sold in the United States and abroad.

*Sales and Distribution*

The *"Playtex"* and *"Sarong"* girdles and bras are principally sold through Playtex's own sales organization directly to retail stores. Bras and girdles are also sold to catalogue houses, in some cases under the *"Playtex"* label and in some under private labels. The family products are principally sold directly, through Playtex's own sales organization, to various types of retailers, jobbers and wholesalers.

Beginning in August 1956, Playtex shifted its main advertising concentration, particularly with respect to its *"Playtex"* products, from magazines to television. As a complement to its television advertising, Playtex puts heavy emphasis on cooperative newspaper advertising, in-store display and distinctive packaging such as the tall tube for the *"Playtex"* girdle.

The Playtex sales force, which operates nationally, is directed from a New York sales office. Deliveries are made from warehouses located in Dover, Delaware and Los Angeles, California. As indicated below, sales in other countries are made from eleven sales offices, and deliveries are made from a number of distribution points.

During the fiscal year ended August 26, 1967, sales to domestic purchasers comprised 71% of Playtex's total sales and foreign customers in 55 countries accounted for the balance. No single customer accounted for more than 3% of Playtex's net sales during that period.

*Raw Materials*

The principal raw materials used by Playtex include elastic fabrics containing spandex (a synthetic fibre), cotton fabrics and nylon tricot. Playtex purchases most of its raw materials from outside sources. All of the principal raw materials and other items used in the manufacture or assembly of products sold by Playtex are, in the opinion of its management, in adequate supply and available from a number of sources.

*Trademarks*

Trademarks are an important selling aid for Playtex's products. The trademark *"Playtex"* and a number of others are registered in the United States and many foreign countries. There is no material litigation pending with respect to the *"Playtex"* trademark.

*Employees*

Playtex employs approximately 9,500 persons, substantially all of whom are engaged in the manufacture and sale of its products and in the maintenance of its plants and properties. 271 of such employees are members of a union which has a collective bargaining agreement with Playtex.

Playtex has established, for the benefit of its employees, two pension plans and two profit sharing plans, of which one profit sharing plan is contributory. In addition, Playtex maintains employee benefit plans which provide life insurance, sickness and accident benefits, and hospital and surgical benefits.

Playtex has never experienced a strike or a general unauthorized work stoppage and regards its relations with its employees to be good.

*Plants and Property*

The operations of Playtex are conducted at a variety of locations in the United States and Puerto Rico as well as in many foreign countries. The management of Glen Alden believes that the various plants maintained and operated by Playtex contain the necessary machinery and equipment for the activities conducted at the respective locations and the plants and equipment are well maintained, in good operating condition and capable of meeting operating requirements in peak periods.

The major plants and distribution centers of Playtex with respect to its products, the principal operations of each at the present time, the approximate space they occupy, and the percentage of utilization, on a one-shift basis (based on average of the last fiscal year) are listed in the table below:

(a) *United States*

The following facilities are owned:

| Location | Principal Operations | Buildings (Sq. Ft.) | Land (Acres) | Percentage of utilization |
|---|---|---|---|---|
| Dover, Delaware | Manufacture of latex girdles and distribution of consumer products | 450,000 | 66.6 | 95% |
| Dover, Delaware | Manufacture of Isodettes and latex gloves; general offices and research and development facilities | 191,500 | 17 | 95 |
| Watervliet, New York | Manufacture of tooth brushes, hair brushes, combs and plastic products | 165,000 | 2 | 75 |
| Manati, Puerto Rico | Manufacture of bras and infants' wear | 47,300 | 5 | 95 |

The following facilities are leased:

| | | | | |
|---|---|---|---|---|
| New York, New York | Sales and executive office | 28,700 | — | 100 |
| Fort Worth, Texas | Manufacture of tampons | 3,750 | 2.5 | 100 |
| Manchester, Georgia | Manufacture of swim caps, bras and girdles | 50,500 | 10 | 95 |
| Newnan, Georgia | Manufacture of bras and girdles | 99,000 | 11.7 | 100 |
| LaGrange, Georgia | Manufacture of bras and girdles | 87,000 | 13.5 | 95 |
| Lafayette, Alabama | Manufacture of bras and girdles | 81,000 | 10 | 95 |
| Los Angeles, California | Distribution of consumer products | 40,000 | 2.2 | 90 |
| Barceloneta, Puerto Rico | Manufacture of bras and girdles | 25,000 | 2.8 | 90 |
| Dorado, Puerto Rico | Manufacture of bras | 50,000 | 5 | 95 |
| Los Angeles, California | Distribution of consumer products | 100,000 | 8 | Under construction |

In addition, Playtex and its subsidiaries lease secondary warehouses, six in Dover, Delaware, and one each in Secaucus, New Jersey; Chicago, Illinois; Los Angeles, California and Troy, New York. One of the Dover locations, and the Secaucus and Chicago locations also serve as trucking terminals. Research and development facilities are maintained at Dover, Delaware and Ridgefield and North Bergen, New Jersey.

(b) *Foreign*

The following facilities are owned:

| Location | Principal Operations | Buildings (Sq. Ft.) | Land (Acres) | Percentage of utilization |
|---|---|---|---|---|
| Arnprior, Ontario, Canada | Manufacture and distribution of bras, girdles and infants' wear | 70,800 | 38 | 100% |
| La Tour du Pin, France | Manufacture and distribution of bras and girdles | 10,000 | 2.5 | 100 |
| Aizey, West Germany | Manufacture and distribution of bras and girdles | 66,800 | 4.5 | 80 |
| Pomezia, Italy | Manufacture and distribution of bras and girdles | 52,500 | 9.9 | 90 |
| Mexico City, Mexico | Manufacture and distribution of bras, girdles and infants' wear | 25,800 | 0.5 | 80 |
| Johnstone, Scotland | Manufacture of bras | 82,000* | 8.5 | 85 |

The following facilities are leased:

| | | | | |
|---|---|---|---|---|
| Jallieu, France | Design and manufacture of bras and girdles | 20,000 | 0.9 | 100 |
| Caracas, Venezuela | Manufacture of infants' wear, bras and girdles (manufacturing operations temporarily shut down) | 10,800 | 0.2 | — |
| Auburn, Australia | Manufacture and distribution of bras and girdles | 23,000 | 0.8 | 100 |
| Port Glasgow, Scotland | Manufacture and distribution of bras and girdles | 218,000 | 4 | 85 |
| Castellar del Valles, Spain | Manufacture and distribution of bras | 27,000 | 4.5 | 75 |

* An additional 48,000 square feet is leased to others and an additional 61,000 square feet is presently offered for lease to others.

Sales offices are maintained in Paris (France), Frankfurt (Germany), Rome (Italy), London (England), Madrid (Spain), Mexico City (Mexico), Auburn (Australia), Amsterdam (Holland), Brussels (Belgium), Copenhagen (Denmark) and Toronto (Canada). Additional warehouse facilities are maintained at Jallieu and La Tour du Pin (France) and Pomezia (Italy).

Additional distribution centers under lease are located in Copenhagen (Denmark), Malton (Canada), Brussels (Belgium), Amsterdam (Holland) and Halsingborg (Sweden).

In addition to the interests in real property previously set forth, Playtex is in a joint venture which leases the following property:

| Name of Joint Venture | Location | Principal Operations | Buildings (Sq. Ft.) | Land (Acres) | Percentage of utilization |
|---|---|---|---|---|---|
| Playtex Africa (Pty.) Ltd. | Durban, South Africa | Manufacture of bras and girdles | 22,000 | 2.4 | 75% |
| Playtex Africa (Pty.) Ltd. | Johannesburg, South Africa | Sales office | 1,200 | — | 100 |

**B.V.D.**

*Products and Stores*

B.V.D., continuing a business founded in 1876, is presently engaged, together with its subsidiaries, in the manufacture and sale of a varied line of men's and boys' clothing and furnishings, women's lingerie, sleepwear and undergarments, men's and women's rainwear and children's and infants' wear. B.V.D., through a number of subsidiaries, also operates 214 retail men's furnishings shops in various downtown and shopping center locations in 32 states.

*Raw Materials*

B.V.D. uses both knit and woven cloth in the manufacture of its apparel. B.V.D. owns and operates two substantial mills in which many of the various types of cotton cloth required in its garment manufacturing operations are fabricated in their entirety from the raw cotton to the finished cloth. These plants produce approximately 25% in the aggregate of all B.V.D.'s cloth requirements for the manufacture of its apparel and the balance comes from outside sources. B.V.D. spins 80% of its yarn requirements.

*Distribution and Marketing*

B.V.D. sells its products principally to retail outlets, such as department stores, chain stores, mail order companies and men's and women's specialty shops. Substantially all sales (except foreign sales, which are not significant) are made by sales personnel employed by B.V.D. and are pursuant to open purchase orders. In addition to the trademarks mentioned above, B.V.D. markets its products under such labels as *"Wonderknit"*, *"Botany"*, *"Beau Brummel"*, *"Mr. John"* and others in the case of men's and boys' knit outerwear and neckwear; *"Flexees"*, *"Gilead"* and *"Jubilee"* in the case of women's lingerie, sleepwear and undergarments; *"Almar"* in the case of men's and ladies' all-weather coats; *"Anvil"*, *"Meadow"* and others in the case of work clothes and slacks; and *"Fawn"*, *"McKem"* and *"Nappies"* in the case of children's and infants' wear.

B.V.D. advertises its products in national and trade magazines, newspapers, billboards and printed materials used in retail outlets.

*Employees*

B.V.D. employs approximately 18,000 persons of whom approximately 90% are engaged in the production of its products and maintenance of its plants and properties. Of the product and maintenance workers, approximately 4,500 are employed under union agreements. The Board of Directors of Glen Alden has recently approved an amendment to its Pension Plan, under which eligible salaried employees of B.V.D. and certain of its subsidiaries will be included in the plan. Management considers its employee relations to be good.

*Plants and Properties*

B.V.D.'s manufacturing operations are conducted at various locations in the United States and Puerto Rico, and it has subsidiaries operating in the United Kingdom and Spain. B.V.D. and certain of its subsidiaries own plants located at:

High Point, North Carolina
Richmond, Virginia
Clinton, South Carolina
Mount Gilead, North Carolina
Hamlet, North Carolina
Candor, North Carolina
West Wyoming, Pennsylvania
Washington, Georgia
Tignall, Georgia

As of March 1, 1966, B.V.D. and certain of its subsidiaries sold plants located in Carrboro, Chadbourn, Kings Mountain and Monroe, North Carolina; Cincinnati, Piqua and Tipp City, Ohio; Pennsburg, Pennsylvania; and Galax, Virginia, and an office building located at Montvale, New Jersey, to a corporation all the stock of which is owned by The Bank of New York, as Trustee for an employees' pension fund of National Shirt Shops, Inc., a wholly-owned subsidiary of B.V.D. The sales price was equal

to B.V.D.'s book value of such real estate plus closing expenses, aggregating $5,000,000. Said properties were leased back to B.V.D. for a term of 25 years at a net rental of $370,000 per annum, with options to renew for six successive five year renewal periods at reduced rentals. The plant located in Tipp City, Ohio, after being reacquired by B.V.D., has been sold. The plants located in Piqua, Ohio and in Pennsburgh, Pennsylvania are not presently in use. On December 21, 1966, B.V.D. and certain of its subsidiaries sold plants located in St. Louis, Missouri, Rochester, New York, and Grayson County, Virginia, to a second corporation, all of the stock of which is owned by The Bank of New York, as Trustee as aforesaid. The sales price aggregated $2,475,000, and said properties were leased back to B.V.D. for a term of approximately twenty-four years at an aggregate net rental of $207,503 per annum, with similar options of renewal at reduced rentals. In addition to the foregoing, B.V.D. and certain of its subsidiaries lease plants located at Caguas, Vieques, Lares, Utuado, Arecibo, Las Marias, Moca, Maricao and Ponce, all in Puerto Rico; Pascagoula and Okolona, in Mississippi; Livingston, Cleveland and Conasauga, Tennessee; Braselton and Atlanta, in Georgia; Prattville and Bay Minette, in Alabama; Mocksville, North Carolina; and Clio and Mullins, South Carolina. B.V.D. maintains its principal executive offices at 299 Park Avenue, New York, New York. The minimum annual rental for all leased properties, including retail stores, aggregates approximately $4,675,000 per annum.

In the opinion of management, the various plants maintained and operated by B.V.D. and its subsidiaries contain the necessary machinery and equipment for the activities conducted at the respective locations and the plants and equipment are well maintained and in good condition. B.V.D.'s plants are, on the average, operating at 85% to 95% capacity on the basis of a single shift operation. All of the plants are in good operating condition and capable of meeting operating requirements in peak periods.

**RKO-Stanley Warner Theatres Division**

The RKO-Stanley Warner Theatres Division of Glen Alden operates the combined businesses of the former RKO Theatres Division of Glen Alden and the former Theatre and Television Division of Warner.

*Theatres*

As of July 31, 1968, the RKO-Stanley Warner Theatres Division operated (directly and through a number of subsidiaries) a total of 132 motion picture theatres located in 95 cities or towns, in 12 states and the District of Columbia. Of the total number of 132 theatres operated by the Division, 79 are owned in fee and 53 are leased. In addition, five theatres are operated by the Division under a management contract with Trenton New Brunswick Theaters Company, a New Jersey corporation of which Glen Alden owns 50% of the outstanding capital stock, the balance being owned by persons unaffiliated with Glen Alden. In many instances, the theatre properties owned or leased by the Division include, in the theatre building or connected therewith, other types of commercial space or property such as offices, stores, apartments and two hotels, all of which are leased to others. As of July 31, 1968, Glen Alden's aggregate annual rental obligations (exclusive of real estate taxes and other expenses) for leased theatre properties was approximately $3,207,000.

The theatres operated by the Division vary in type and size, and range in seating capacity from 300 to 3,000 seats. Almost all of the theatres show "first-run" or "first neighborhood run" films in the particular city, town or neighborhood in which they are located. A few of the theatres operate exclusively on a "first-run" art policy. For several years, there has been a decline in motion picture attendance owing to a number of factors, including competition from home television and various other leisure time activities and a reduction in the number of quality pictures available. Subscription television may be an increasingly important source of competition for motion picture theatres. As a result of the foregoing factors there has been a reduction in the total number of theatres being operated. Such decline in the number of admissions has been offset to some extent by increasing admission prices, admission tax eliminations, and economies in operation. There is keen competition in the exhibition of motion pictures which has been enhanced by changing methods of distribution during the past few years.

The Division has within the past year opened three new twin theatres in the metropolitan area of New York. Six more such theatres have been authorized by the Court under the consent decree men-

tioned below. In addition, the Division is currently seeking the Court's approval for one more theatre and also plans two additional theatres to replace theatres which will be or have been closed. The Warner Theatre on Broadway, New York City, has recently been converted into three smaller theatres. All of the foregoing new theatres will be in the greater metropolitan New York area. In addition, a new theatre has been opened in New Haven, Connecticut with the consent of the Court.

The Division is also negotiating the sale and leaseback of approximately 50 theatre properties for an aggregate purchase price of approximately $25,000,000. It is anticipated that the Division will continue to operate these theatres under a 25 year lease providing for net rentals of approximately $2,225,000 per annum, and that the Division will have the right to renew the lease for two ten-year periods at annual rentals of approximately $890,000.

The RKO-Stanley Warner Theatre Division and its predecessor divisions have for several years followed a program of eliminating marginal and unprofitable theaters by not renewing leases as they expire, by cancelling leases in advance of their expiration dates and by the sale of theatre properties.

The operation of the RKO-Stanley Warner Theatre Division is subject to antitrust consent judgments entered into by predecessor companies of Glen Alden and Warner, respectively. These judgments arise out of actions in the United States District Court for the City of New York entitled *U. S.* v. *Paramount Pictures, Inc., et al,* (Equity #87-273) and *U. S.* v. *Loew's Incorporated et al* (Equity #87-273). The judgments provide, among other things, that the Division may acquire additional theatres in the United States (apart from theatres substituting for theatres lost through physical destruction or conversion to non-theatrical purposes) only if, upon application to the Court, it is shown that such acquisition will not unduly restrain competition. Pursuant to the terms of a further consent order entered on July 20, 1967 in connection with the Glen Alden-Warner merger, the Division may be required to divest itself of the operations of any or all of the theatres formerly operated by the RKO Theatre Division of Glen Alden which the United States Department of Justice may recommend to the Court. The July 20, 1967 order provides that Glen Alden shall have an adequate opportunity, prior to the making of any such recommendation, to present evidence and argument to the Department of Justice with respect thereto. At the request of the Department of Justice, Glen Alden has furnished certain information to the Department in respect of its acquisition of Warner. At present, however, the Department of Justice has not recommended to the Court divestiture of any theatres under the July 20, 1967 order.

As of July 31, 1968, 16 anti-trust cases arising from its motion picture theatre operations (in which treble damages are sought) were pending against Glen Alden or its subsidiaries. The total amount of damages sought is $127,000,000, including $117,500,000 sought in actions brought in the United States District Court for the Southern District of California, Central Division, in connection with subscription television. During the year ended July 31, 1968, three such cases involving an aggregate of $20,250,000 of damages demanded were settled for a total payment of $18,250. Based on past experience with various types of litigation and an analysis of the presently pending cases, management believes that the existing reserve of approximately $140,000 is adequate to meet the costs and any ultimate liability from such litigation.

*Television*

The Division operates Station WAST-TV (Channel 13) serving the Albany-Schenectady-Troy market, which ranks 27th in the United States in the number of TV homes. It is a primary affiliate of the American Broadcasting Companies television network (ABC). The present affiliation contract expires in July 1968, and a two year renewal contract has been submitted by ABC. Its competitors are WRGB (Channel 6), an NBC primary affiliate, operated by a subsidiary of General Electric Company, and WTEN (Channel 10), a CBS primary affiliate, operated by the Capitol Cities Broadcasting chain.

WAST is currently in its ninth year of VHF operation, is completely equipped for all phases of color operation, and is able to telecast all types of color programs. It is also equipped to process both black and white and color film.

WAST operates out of a 12,000 square-foot building on 0.75 acres owned by it in Albany, New York, which contains its studios and its requisite broadcasting facilities. The management believes that since its inception the station has steadily improved its home coverage and increased its share of the

Albany-Schenectady-Troy audience. Recently installed equipment (including a transmitter on Bald Mountain) permits its signal to reach the Rutland, Vermont, Pittsfield, Massachusetts and Gloversville, New York markets.

Television broadcasting is subject to the jurisdiction of the Federal Communications Commission ("FCC") under the Communications Act of 1934, as amended (the "Act"). The Act empowers the FCC, among other things, to issue, revoke or modify broadcasting licenses, to determine the location of stations, to regulate the equipment used by stations, to adopt such regulations as may be necessary to carry out the provisions of the Act and to impose certain penalties for violation of such regulations. Broadcasting licenses may be granted for a maximum period of three years and are renewable for additional three-year periods upon application and approval. When a renewal application is pending, the Act, as interpreted by the FCC, permits new applicants to file for the frequency in use by the renewal applicant, and entitles the new applicants to a hearing in competition with the renewal application. No competing applications have ever been filed against Warner's renewal applications. The Act prohibits the transfer of a license or the transfer of control of a license without approval of the FCC.

The foregoing information does not purport to be a complete summary of all of the provisions of the Act, the regulations of the FCC thereunder, or of various proposals which have been made from time to time or are now pending for legislation or amendments to such regulations. Reference is made to the Act and to such regulations for further information.

Glen Alden has entered into an agreement for the sale of WAST to Sonderling Broadcasting Corporation for a price of $8,000,000 in cash, subject to FCC approval. There is no assurance that the required approval of the FCC will be secured or that the sale will be consummated.

*Employees*

The RKO-Stanley Warner Theatres Division employs approximately 3,030 persons of whom approximately 1,740 are members of unions having collective bargaining agreements with Glen Alden. Substantially all of these employees are employed in the operation of the Division's motion picture theatres and its television station.

The employees of the Division are entitled to the benefit of a pension plan and Glen Alden contributes to a union welfare plan. In addition, the Division maintains employee benefit plans which provide life insurance, sickness and accident benefits, and hospital and surgical benefits.

The Division has never experienced a strike or a general unauthorized work stoppage and management regards its relation with its employees to be good.

**Philip Carey**

*Products*

Philip Carey, Glen Alden's subsidiary, continues a business founded in 1888. Philip Carey is principally engaged in the manufacture and sale of roofing products, industrial products, asbestos fibres and related products, and Miami-Carey Division fabricated products. Philip Carey's principal roofing products are asphalt shingles, roll roofings, saturated roofing felts, roof coatings, and asphalt plastic cements. Philip Carey's industrial products include pipeline felts and padding, specialty inorganic and organic papers, asphalt and fibre expansion joints, asphalt plank and tile, waterproofing products and industrial insulation.

Asbestos fibre in various forms is an important ingredient in many of the products manufactured by Philip Carey. Philip Carey's subsidiary, Carey-Canadian Mines, Limited (herein referred to as "Carey-Canadian"), operates an asbestos mine and milling plant in East Broughton, Quebec, Canada (described below) which produces asbestos fibres both to meet a significant portion of Philip Carey's requirements and for sale in the open market. During the past four years sales to Philip Carey for its own use by Carey-Canadian averaged about 14% of Carey-Canadian's total sales in terms of dollars and about 10% of total sales in terms of tonnage. The balance was sold by Carey-Canadian to outside customers directly and through independent distributors. Philip Carey itself manufactures and sells asbestos cement flat boards and corrugated sheets.

The principal fabricated products of the Miami-Carey Division are bathroom cabinets, kitchen range hoods, bathroom and kitchen ventilating fans, bathroom wall mirrors, door chimes, and bathroom

lighting fixtures. Certain component parts, such as a portion of the lighting fixtures for bathroom cabinet units, electric motors used in the ventilating fans, and glass for mirrors are purchased. The Miami-Carey Division is presently building an addition to its Monroe, Ohio, plant to manufacture mirrors. In addition, the Division sells bathroom accessories (such as towel bars, soap and glass holders, and electric bathroom heaters) and home radio intercommunication systems which it purchases from others.

*Sales and Distribution*

Philip Carey sells its products through its own sales organization, principally to independent distributors. Its products are sold throughout the United States and Canada and many are exported to other countries. It has district sales offices and warehouses at Atlanta, Georgia; Bellwood (Chicago), Illinois; Beltsville (Washington, D. C.), Maryland; Boston, Massachusetts; Cincinnati, Monroe and Cleveland, Ohio; Dallas, Texas (warehouse only); Denver, Colorado (warehouse only); Detroit, Michigan; Houston, Texas; Memphis, Tennessee; Perth Amboy, New Jersey; Jersey City, New Jersey; New York, New York (sales office only); Philadelphia, Pennsylvania (warehouse only); Los Angeles and San Francisco, California (warehouse only); St. Louis, Missouri; Montreal, Quebec; Toronto, Ontario; and St. John, New Brunswick, and warehouse facilities at its plants except the plants at Wilmington, Swainsboro and Lennoxville. District offices and warehouses (except the Philadelphia warehouse which is owned and warehouses in owned plants) and leased.

Philip Carey maintains industrial contract departments at Detroit, Michigan; Indianapolis, Indiana; Los Angeles, California; Perth Amboy, New Jersey; Philadelphia, Pennsylvania; Providence, Rhode Island, and Washington, D. C., through which it furnishes and installs industrial and commercial insulations for pipes, boilers and similar equipment.

*Raw Materials*

The principal raw materials used in the manufacture of Philip Carey's products are asbestos fibre, asphalt, cement, pulpwood, roofing granules, steel, tar, and waste paper. Philip Carey currently secures approximately 44% of its asbestos fibre requirements from the East Brougton mill and purchases the balance of its requirements (some of which are of different grades and types) in the open market. All of the foregoing raw materials, as well as other items used in the manufacture or assembly of products sold by Philip Carey are, in the opinion of management, in adequate supply and available from a number of sources.

*Competition*

There is strong competition with respect to products sold by Philip Carey. Because of the large variety of products which Philip Carey sells, it competes with a large number of both smaller and larger companies. The product lines of some of its competitors are not as broad as those of Philip Carey. Management of Philip Carey believes, on the basis of information available to it, that it presently ranks fifth or sixth in the United States in the sale of asphalt roofings and ranks third in the United States and Canada (measured in terms of tonnage) in the production of asbestos fibre.

*Asbestos Mine and Mill*

In 1915 Philip Carey acquired a majority interest in a Canadian corporation which owned and operated asbestos mines and a mill near East Broughton, Quebec, Canada, and subsequently acquired the entire interest in this operation. The mining and milling of asbestos at this location was terminated in 1958 because the rock in these mines, removable by open pit mining, was exhausted.

Between 1952 and 1956 Philip Carey's wholly-owned subsidiary, Carey-Canadian, acquired title to or mining rights in approximately 770 acres of land, also near East Broughton, through which extends an asbestos-bearing rock containing formations suitable for open pit mining. Subsequently, additional real estate has been acquired surrounding this area, primarily for protection purposes.

In 1958 Carey-Canadian completed the erection at this new location of a modern mill, constructed of steel and asbestos cement board and consisting of a 12-story plant, warehousing facilities, a machine shop, a research laboratory and other facilities. Open pit mining and milling on a commercial basis was commenced on September 1, 1958. Since that time the warehouse capacity has been increased and machinery has been added which has both increased capacity and added to the variety of fibres which

can be milled. As of June 30, 1968, the total investment in this mill, its machinery and equipment, and in the mine and mining equipment, excluding rolling stock, amounted to approximately $16,408,000 Canadian funds, and the residual value on the books of Carey-Canadian was approximately $7,817,000.

The mill operations are highly automated. It has a capacity of at least 4,200 tons of rock per day, and for the past three years has operated at approximately 95% of capacity. It is served by the Quebec Central Railroad Company and by paved highways suitable for the shipment of asbestos fibres by truck.

The mining area has been divided by management for convenience into five zones, designated as Zones B, C, D, E and T. Carey-Canadian owns the land area of Zones C, D and E. It has open pit mining rights in the land area of Zone B granted by the land owners and mining rights in the land area of Zone T granted by the government of the Province of Quebec.

All of these zones have been tested by Carey-Canadian to some extent by diamond drilling for the purpose of determining the character of the materials and the tonnage of underlying asbestos-bearing rock, available for open pit mining. Zone C has been so tested extensively and has been mined by Carey-Canadian by open pit mine methods during the past nine and a half years. Some open pit mining has also been conducted in Zone B during the past two and a half years.

Based on the diamond drilling completed to date and the knowledge secured from the open pit mining in Zones B and C, management believes that in Zones B and C there are reserves of asbestos-bearing rock, estimated at approximately 39,000,000 tons, containing fibre of a fibre value similar to that which has been heretofore mined and milled. If the foregoing estimates are correct, based on the present rate of mining, the asbestos-bearing rock of equal fibre value to that now being mined will not be exhausted for approximately 32 years.

Additional drilling performed outside of Zones B and C indicates the existence in Zones D, E and T of an aggregate of approximately 67,300,000 tons of asbestos-bearing material. Work done to date on these latter zones is insufficient to enable Carey-Canadian to predict to what extent, if any, this material can be mined commercially. Carey-Canadian intends, at some future date, to carry on further exploration in these zones to determine to what extent commercial mining is in fact feasible. The limited exploration already performed in the area outside Zones B and C indicates that a portion of the asbestos-bearing material (that contained in Zone T) is of approximately the same grade as that contained in Zones B and C, whereas the asbestos-bearing material in the other zones appears to be of a substantially lower quality.

These mines are known as short fibre mines, and the fibres produced are predominantly in the lower priced "Asbestos Shorts" grades which are used in the manufacture of floor tile, plastics, joint-cement and similar products. However, important production is also obtained of fibres falling in the "Asbestos Fibres" grades which are used principally in the manufacture of asbestos papers and asbestos cement products.

The total quantity of asbestos-bearing rock processed in the mill, the quantity of asbestos fibre recovered, the percentage of recovered fibre to rock milled, and the direct operating cost per ton of rock mined and milled (exclusive of depletion, depreciation, general administrative expenses, and taxes on income) during each of the past three and a half years are as follows:

| Year | Tons of Rock Milled | Tons of Fibre Recovered | Percentage of Fibre Recovered | Direct Operating Costs per Ton of Rock Milled |
|---|---|---|---|---|
| 1965 | 1,069,628 | 190,564 | 17.81% | $4.01 |
| 1966 | 1,074,096 | 184,328 | 17.16 | 3.98 |
| 1967 | 1,050,713 | 176,930 | 16.83 | 4.25 |
| 1968 (six months ended June 30) | 605,555 | 96,262 | 15.90 | 4.02 |

There have been no material changes in mining conditions or in the deposit being mined at these mines over the past several years and none are anticipated, other than normal variations which may result from the relocation, if any, of mining operations and the type and quantity of fibre produced. How-

ever, costs may increase in the future due to increased ratio of waste removed to asbestos-bearing rock obtained as the depth of the pits increases. Hauling and water pumping costs also increase for the same reason.

Glen Alden is currently considering the possible sale of the asbestos mine and the East Broughton mill but no specific negotiations in this regard are pending at the present time.

*Other Properties*

In addition to the East Broughton mill, Philip Carey operates nine manufacturing plants, four of which are devoted to the manufacture of "Miami-Carey Division" products, and the remaining five of which manufacture various items included in the other general product lines. These plants are of widely varying ages, the oldest having been built in 1895 and the two newest having been completed in 1966. Six of these plants are owned by Philip Carey and two are occupied by Philip Carey under long-term leases with purchase options, with respect to which the aggregate annual rental obligation is $86,229. The remaining plant is owned by The Philip Carey Co., Ltd., a wholly-owned Canadian subsidiary. The buildings are of different types of construction, including brick and steel, corrugated asbestos sheathing, concrete blocks and other non-combustible materials. The plants have transportation facilities for both raw materials and finished products which management believes to be adequate. The management believes that all of its plants are well maintained and are suitable for the purposes intended, are being operated efficiently and have capacity for substantially increased production. The nine major plants operated by Philip Carey in addition to the East Broughton mill, the principal operations of each at the present time, and the approximate space they occupy are listed below:

| Location | Principal Operations | Buildings | Land |
|---|---|---|---|
| Lockland, Ohio | Philip Carey's general offices; manufacture of building materials and industrial products. | 1,090,660 sq. ft. | 81.5 acres |
| Perth Amboy, N. J. | Manufacture of asphalt shingles, roll roofing felts, asphalt coatings and plastics. | 219,130 sq. ft. | 47.6 acres |
| Wilmington, Illinois | Manufacture of asphalt roofing products and roofing coatings and plastics. | 278,630 sq. ft. | 111 acres |
| Memphis, Tennessee | Manufacture of asphalt roofing products, roof coatings and plastics. | 133,400 sq. ft. | 15 acres |
| Houston, Texas | Manufacture of saturated felts, asphalt shingles and roll roofings, asphalt coatings and plastics. | 70,700 sq. ft. | 22.9 acres |
| Monroe, Ohio | Miami-Carey Division products. | 276,500 sq. ft. | 30 acres |
| Swainsboro, Ga. (leased) | Manufacture of door bells, buzzers, door chimes, transformers, push buttons and driveway alarm signal systems (Miami-Carey Division). | 35,000 sq. ft. | 4.827 acres |
| Santa Fe Springs (L. A.), California (leased) | Manufacture of Miami-Carey Division products. | 87,300 sq. ft. | 8 acres |
| Toronto, Ontario, Canada | Manufacture of Miami-Carey Division products. | 88,000 sq. ft. | 13 acres |

In addition The Philip Carey Co., Ltd. maintains a warehouse in Lennoxville, Quebec, Canada. The manufacturing facility previously operated at this location by The Philip Carey Co., Ltd. was destroyed by fire in December 1967.

*Employee Relations*

Carey and its Canadian subsidiaries have approximately 3,250 full-time employees in the United States and Canada. Substantially all of its approximately 2,500 production and maintenance hourly-rated employees are represented by labor unions. Philip Carey has eight principal labor agreements of which two expire in 1968, two in 1969, three in 1970 and one in 1971. Philip Carey considers its relations with its employees and the unions representing them to be satisfactory.

Carey and its Canadian subsidiaries have in effect pension plans for their salaried employees and, at eight of its plants, for hourly-rated employees, and other employee benefit plans providing life insurance, sickness and accident benefits, and hospital and surgical benefits.

**Combination with Briggs Manufacturing Company**

The management of Glen Alden has under consideration the possible combination of the operations of Philip Carey with those of Briggs Manufacturing Company ("Briggs"), a company in which, as of June 30, 1968, Glen Alden has an investment of approximately $3,200,000 (comprised in part of debt and in part of about 29% of Briggs' outstanding common stock) and holds certain options to purchase additional Briggs stock. Briggs and its subsidiaries are engaged principally in the manufacture and sale of water heaters and plumbing ware. In addition, Western Tire Auto Stores, Inc., a subsidiary of Briggs, operates a chain of retail auto supply stores. Briggs' net sales and net losses were $65,114,812 and $3,179,166 respectively in 1965, $58,443,988 and $10,957,981 respectively in 1966 and $41,088,093 and $3,352,592 in 1967. (Briggs' 1966 losses included significant amounts resulting from the disposal and liquidation of plants and excess assets and an adjustment in inventories and nontrade receivables.)

The form and terms of the proposed combination have not yet been fixed, and any such transaction will require the approval of Briggs' stockholders and certain of its creditors.

**Textile Manufacturing**

Glen Alden's textile manufacturing operations (which comprise less than 1% of the industry total) other than those carried out by B.V.D. are conducted through Gera Corporation ("Gera"), a Delaware corporation of which Glen Alden owns approximately 99.3% of the issued and outstanding Common Stock. Gera, which is not itself engaged in any manufacturing operations, in turn owns all of the stock of Swift Textiles, Inc. ("Swift"), a Georgia corporation located in Columbus, Georgia, Opp Cotton Mills ("Opp"), an Alabama corporation located in Opp, Alabama, and The Micolas Cotton Mills ("Micolas"), an Alabama corporation also located in Opp, Alabama.

*Swift Textiles, Inc.*

Swift is a textile manufacturer producing fabrics for apparel and industrial uses. Its line of apparel fabrics, principally of the denim type goes into work clothing and into men's and women's casual and sportswear and makes up 60% of its sales volume. Its line of industrial fabrics, principally for rug backing, rug underlay, leno-woven produce bags, insulators, and filters, account for 40% of its net sales.

Most of Swift's apparel and industrial fabrics are sold directly to manufacturers. Substantially all fabric sold is in dyed and finished form. In the main, sales are made by 16 of Swift's own salesmen, six of whom work out of the Columbus plant and the other ten of whom work out of regional offices located in New York, Chicago, Los Angeles and Atlanta. Swift's automotive industry sales are handled by manufacturers' representatives in the Detroit area. Some additional sales are made through two manufacturers' representatives. Export sales account for less than 5% of net sales and consist in the main of leno-woven produce bag materials shipped to Canada.

Swift's basic raw material is cotton and most of its fabrics are made from cotton in whole or in part. However, particularly in the apparel line, synthetics, such as polyesters and nylon, are used in various combinations. At Swift's plant these materials, plus dyes and other chemicals, are processed into fabrics by various spinning, weaving, finishing and dyeing operations.

*Opp and Micolas Cotton Mills*

The Opp and Micolas Cotton Mills, acquired in 1962, are both manufacturers of woven cotton materials for apparel, industrial, and decorative use, sold in an unfinished state. The apparel fabrics, principally for sportswear, sleeping garments, uniforms, and shoes, account for approximately 35% of the combined net sales of the two companies. In the industrial field both companies manufacture fabrics for the laminating industry and for the bag industry as container material for flour, salt, grain, and feed. In the decorative field, both companies produce fabrics used by the furniture and home furnishing industry.

Approximately 80% of the combined products of Opp and Micolas are sold directly through a sales office located in New York City, with the remainder sold through various brokers and agents. Customers of the two companies consist of over 500 manufacturers and converters, the largest of which, as a package producer, accounts for approximately 14% of the combined sales.

With the exception of small quantities of cotton and rayon blends, the two companies produce only cotton fabrics.

*Equalization Payments*

Under the Agricultural Act of 1964, the United States Government re-established a one-price cotton system applicable to the crop year of August 1, 1964. The objective of this Act was to make it possible for domestic manufacturers to purchase U. S. grown cotton at the same price paid by foreign competition for foreign grown cotton. Initially, equalization payments were made directly to the manufacturers on the basis of bales opened. Subsequently, these payments were made directly to the cotton farmer. The law has been extended to 1970.

The lower cost of raw materials to Swift, Opp and Micolas, since passage of the Agricultural Act of 1964, has been largely off-set by increased wages to employees.

Neither the finished products produced by Swift nor the raw materials from which such products are manufactured are faced with substantial foreign competition. Management therefore believes that the discontinuance of the foregoing equalization payments to Swift's suppliers would have little effect on Swift's profit performance because, even though some increase in the price of raw materials might result, this increase would be offset by an increase in Swift's prices to its customers. Management is unable to forecast the effect on the profit performance of the Opp and Micolas Cotton Mills of any discontinuance of or reduction in the equalization payments to its suppliers.

*Employees and Labor Relations*

Swift has approximately 1700 employees, all of whom, with the exception of regional sales personnel, are located at the Columbus plant. Opp and Micolas together have approximately 1100 employees divided almost equally between them, all of whom are located at their respective plants. There is no union representation in any of these subsidiaries and no unauthorized work stoppage has occurred at any of these plants in the last 30 years. Salaried employees are entitled to the benefit of a pension plan. Management considers its labor relations in all of these plants to be good.

*Plants and Property*

The Swift plant is owned by Swift and contains approximately 809,000 square feet located on a site of approximately 9.8 acres. Approximately 47% of the total floor space is included in buildings (mainly multi-story), portions of which were constructed at the time of Swift's founding in 1883 and the balance of which consists of brick and wood-beam construction erected at various times in the early 1900's. The remainder of this plant, constructed of brick with steel beams, has been built at various times from 1936 through 1960. This plant is now operating at or near capacity. As a result of a detailed study, management has undertaken a program involving the modernization of its existing plant and a major expansion at a new site in Phenix City, Alabama (across the Chattahoochee River from Swift's existing plant). The new plant, which is now 85% completed, will be approximately 500,000 square feet in size and will be devoted entirely to the manufacture of specialty industrial fabrics. Approximately 500 employees will be employed in this new plant. The cost of the new plant has been financed by a $15,000,000 industrial revenue bond issue of the Industrial Development Board of Phenix City, Alabama, a public corporation. The plant is being built to Swift's specifications. Swift will occupy the plant under a long-term lease, at a rental sufficient to repay the principal when due and the interest on the bonds. Glen Alden has guaranteed the payments under said lease.

Except as noted below, Opp and Micolas own their respective plants, which are located on approximately 130 acres in the aggregate. The Opp mill, expanded at various times mainly from 1940 to 1964 contains approximately 239,000 square feet of floor space, including storage warehouses. A single-story brick building, this mill was originally constructed in 1921. The Micolas mill, also expanded at various times, contains approximately 216,000 square feet of floor space including storage warehouses, and a brick

veneer executive office building. A single-story brick building, this mill was originally constructed in 1923. The Opp and Micolas plants are in excellent condition. The Micolas plant was expanded within the past year at an aggregate cost of $2,500,000. The expansion was financed by a $2,500,000 industrial revenue bond issue of the Industrial Development Board of the City of Opp, Alabama, a public corporation. Micolas occupies the plant under a long-term lease, at a rental sufficient to repay the principal when due and the interest on the bonds from the Industrial Development Board of the City of Opp, Alabama. Glen Alden has guaranteed the payments under said lease.

Management believes that all of its plants are well maintained, are in good condition and are adequate for present operations.

**Government and Industrial Division**

Glen Alden's government and industrial division, operated through a subsidiary, ILC Industries, Inc., is the prime contractor for the production of spacesuits for Project Apollo, which are designed for astronauts' flights to the moon. The present contracts with NASA relate both to the production and development of the spacesuit. The first suits have been delivered under this program. Other recent activities include the manufacture of inflatable structures for industrial and municipal users, as well as for the United States Government, and the production of protective helmets and accessories for law enforcement agencies in certain cities.

Negotiations are presently pending relating to a possible sale to the public through underwriters of a minority interest in ILC Industries, Inc.

*Employees*

ILC Industries, Inc. employs 715 persons substantially all of whom are engaged in the manufacture and sale of its products and in the maintenance of its plants and properties.

ILC Industries, Inc. has established for the benefit of its employees one pension plan and one profit sharing plan. In addition, ILC Industries, Inc. maintains employee benefit plans which provide life insurance, sickness and accident benefits, and hospital and surgical benefits.

ILC Industries, Inc. has never experienced a strike or a general unauthorized work stoppage and regards its relations with its employees to be good.

*Plants and Properties*

ILC Industries, Inc. owns a 100,000 square-foot plant on 3.8 acres in Dover, Delaware, which is utilized for research and development, the manufacture of spacesuits and protective equipment, and for products distribution. This facility is presently being used at 100% of its capacity. ILC Industries, Inc. also leases a plant in Frederica, Delaware, containing 45,000 square feet on seven acres, which is used for the warehousing and manufacture of inflatable structures, inflatable boats, spacesuit components and protective helmets. The average utilization of the latter plant is 90%.

**Patents**

Glen Alden through various subsidiaries owns approximately 250 U.S. patents, approximately one-third of which are design patents, the balance being functional patents. In addition, Glen Alden owns a number of foreign patents. In the opinion of Glen Alden's management, its present position as a major manufacturer of certain of its products is based primarily on its collective experience, technical know-how and marketing skill. Accordingly, management believes that the loss or expiration of any one, or any particular group of patents, would have no material adverse effect on its business.

**Recent Transactions**

On February 18, 1966 effective as of January 1, 1966, Glen Alden transferred to Blue Coal Corporation ("Blue Coal"), an inactive subsidiary of Glen Alden, substantially all of the net assets of

its Coal Division, and immediately thereafter sold all of the outstanding capital stock of Blue Coal to Raymond Colliery Company, Inc., a corporation owned by parties unrelated to Glen Alden. The aggregate consideration received by Glen Alden in the above transactions was $500,000 in cash, a secured note of Blue Coal in the sum of $5,775,000, and an unsecured note of Blue Coal in the sum of $100,000. The transaction resulted in a nonrecurring loss to Glen Alden (based on the book values of the assets sold) of $3,637,835 in the year 1965.

Pursuant to transactions in July 1966 and May 1967 Glen Alden acquired all of the assets of B.V.D. in exchange for an aggregate of 937,098 shares of Glen Alden's $3.15 Cumulative Convertible Preferred Stock ("Preferred Stock") and 335,398 shares of Glen Alden's Class C (Contingent Preference) Stock ("Class C Stock") of which latter class, 333,334 shares were issued to Mr. and Mrs. Sol Kittay (76,317 shares of the Preferred Stock were issued to a charitable trust in which Mr. Kittay has a reversionary interest). At the time of the May 1967 transaction Mr. Kittay was a director of Glen Alden, a post which he continues to hold. In February 1968, Glen Alden redeemed all shares included in Series 1 of such Class C Stock of which 66,666 shares had been owned by Mr. and Mrs. Sol Kittay.

In June 1967, Philip Carey was merged into Glen Alden and the shareholders of Philip Carey received an aggregate of 724,405 shares of Glen Alden's $2.25 Senior Cumulative Convertible Preferred Stock. Prior to the merger, through a public offer for tenders in February 1966 and through subsequent open market purchases, Glen Alden had acquired approximately 28% of the outstanding common shares of Philip Carey for $11,753,000 in cash.

In July 1967, Glen Alden acquired 743,212 (approximately 17.5%) shares of Warner Common Stock from Fabian Enterprises Inc., a corporation controlled by trusts for the benefit of members of the families of Simon H. Fabian and the late Samuel Rosen. Mr. Fabian and his sister, Mrs. Samuel Rosen, are the sole trustees of said trusts. At the time of such transaction Mr. Fabian was a director and the President of Warner and Mr. Rosen was a director and the Executive Vice President of Warner. The purchase price for said shares was $50 per share, or an aggregate of $37,160,600, and was paid in cash. The reported closing price on the New York Stock Exchange of Warner Common Stock on July 20, 1967 and July 21, 1967, the trading days immediately preceding and immediately following the announcement of Glen Alden's said acquisition, was $57.50 and $56.50, respectively. Messrs. Fabian and Rosen each agreed, for a ten year period beginning February 1, 1968, not to compete with Glen Alden with respect to the business of manufacturing consumer apparel products of the type presently being manufactured by International Latex Corporation without the consent of Glen Alden. In consideration for such agreement, Messrs. Fabian and Rosen (or their estates) are each to receive annual remuneration at the rate of $42,000 for the aforesaid ten year period. The purchase agreement also provided that Glen Alden would be required to pay Fabian Enterprises Inc. an additional purchase price of up to a maximum of $6 per share if Glen Alden should dispose of the aforesaid shares for a price of more than $54 per share within nine months of the date of purchase, or if, in any merger or consolidation of the two corporations, or as part of any acquisition of the assets of Warner or tender offer for stock of Warner by Glen Alden, the stockholders of Warner should receive from Glen Alden a consideration the fair market value of which (determined as of the date upon which the Glen Alden Board of Directors approved the basic terms of the transaction) was greater than $54 per share. Such additional purchase price, if any, is payable at Glen Alden's election, in cash or in the securities offered to Warner stockholders, or both. The purchase agreement also provided that Glen Alden will indemnify and hold harmless the seller against any claim by or on behalf of Warner or any shareholder thereof (including expenses and counsel fees) arising out of the aforesaid sale of Warner Common Stock.

In December 1967, Warner was merged into Glen Alden on the basis of an exchange of .55 shares of Glen Alden's Class B Senior Cumulative Convertible ($3) Preferred Stock ("Class B Senior Stock") for each share of Common Stock of Warner, resulting in the issuance of 1,669,998 shares of such Class B Senior Stock. Messrs. Fabian and Rosen have claimed that, as a result of this merger, they are entitled to the maximum additional purchase price mentioned above. However, this claim is presently unresolved.

In July 1967 Glen Alden agreed to pay to David G. Baird a fee of $3,000,000, payable in ten equal annual installments, for his services as a finder and in helping in the negotiations leading to the purchase by Glen Alden of the 743,212 shares of Warner Common Stock mentioned above and for such advice as he might be called upon to supply in connection with any merger of Warner with Glen Alden or any similar transaction. The first payment under such agreement has been made. Mr. Baird was not then and is not now a director, officer or employee of Glen Alden and is wholly unrelated to it; nor is he an associate of any officer or director of Glen Alden. Mr. Baird was not a director, officer or employee of Warner or any of its affiliates; nor was he an associate of any of Warner's officers or directors. Mr. Baird was then, and had been since May 1, 1956, a financial consultant to Warner as an independent contractor on a month to month retainer. Mr. Baird agreed to pay one-third of the aforesaid fee to Mr. Serge Semenenko (a former Vice-Chairman of The First National Bank of Boston) for his assistance to Mr. Baird. Mr. Semenenko was not then and is not now a director, officer or employee of either Glen Alden or Warner, although there can be no assurance that he will not render services to Glen Alden in the future. Mr. Semenenko is the brother-in-law of Dr. Charles McKhann. Dr. McKhann was a director of Warner and, upon consummation of the merger, became a director of Glen Alden. Subject to the foregoing, Mr. Semenenko was not then and is not now an associate of any officer or director of Glen Alden or of Warner.

Prior to the consummation of the Warner merger, Glen Alden purchased an additional 505,500 shares of Warner Common Stock from two institutional investors at a purchase price of $51 per share or an aggregate of $25,780,500.

On April 29, 1968 Glen Alden's subsidiary, International Latex Corporation, sold all of the outstanding capital stock of International Latex & Chemical Corporation to Standard Brands Incorporated. International Latex & Chemical Corporation, prior to such sale, had operated Glen Alden's "Chemical Division" which manufactured, under various trademarks, synthetic latex and a number of other industrial products. Under the contract of sale, International Latex Corporation retained the right to use the words "International" and "Latex" as part of a single corporate or trade name. A separate agreement contains certain provisions relating to the supply of certain synthetic latex materials used by Playtex.

On April 30, 1968, Glen Alden sold all of its motion picture theatre properties in California, Texas and Tennessee (consisting of 11 conventional theatres and 19 drive-in theatres).

The aggregate net cash consideration received from the sale of International Latex & Chemical Corporation and of the above-described theatre properties was approximately $44,932,000. Further details as to the foregoing sales are shown in Note 2 to the Pro Forma Combined Balance Sheet set forth on page 62 herein.

During May 1968 Glen Alden sold, with recourse, a number of notes and mortgages receivable having an aggregate principal amount of approximately $8,600,000. The sale was made to an institutional investor for a cash purchase price equal to $1,000,000 less than the present value of all sums payable under said notes and mortgages discounted at 8% per annum simple interest.

**Legal Proceedings—Glen Alden**

Glen Alden is involved in a number of court and administrative proceedings relating to the operations of its coal division, which was sold in February 1966. Under the agreement relating to the sale of the coal division, the purchaser assumed all of Glen Alden's liabilities in these proceedings. However, Glen Alden agreed to reimburse the purchaser for one-half of the cost incurred by the purchaser with respect to claims applicable to the period prior to January 1, 1966. Some of these proceedings involve, or may involve, alleged air pollution claimed to be attributable to burning culm (refuse) banks.

In November 1965, an action was commenced in the United States District Court for the Middle District of Pennsylvania by the United States of America against the Anthracite Export Association and

others, including Glen Alden, then a member of such Association, alleging a violation of the Sherman Act involving, among other things, the fixing of prices of anthracite supplied by the defendants under the United States Army program and the limitation of participation in sales of anthracite coal to the United States Armed Forces in Europe, and asking, among other things, for an injunction against fixing prices or allocating sales of anthracite for domestic or export trade and against combining to participate in the United States Army program. Glen Alden has taken the position that it has acted properly pursuant to the provisions of the Webb Pomerene Act. Cross motions for judgment on the case have been made on the basis of a stipulation of facts. No date has been set for the argument of these motions. Management has continued to maintain reserves which in its opinion are adequate to cover all liabilities which Glen Alden may be required to pay as a result of the above-described litigation.

As compensation for his services to Glen Alden in connection with the sale of the assets and liabilities of the coal division, Glen Alden paid $200,000 to Albert A. List, former Chairman of the Board and President of Glen Alden. An action entitled *Wolfensohn* v. *Becker et al* was instituted in November 1966 in the Supreme Court of the State of New York, New York County, on behalf of Glen Alden against the directors of Glen Alden and Albert A. List seeking to recover said payments from Mr. List and requiring the directors to account to the corporation for their actions and for costs and expenses including attorneys' fees. The time to answer has been extended and an answer has not yet been filed.

Two actions were instituted in December, 1967 by William B. Weinberger, in the Supreme Court, State of New York, New York County. One such action was brought by Mr. Weinberger as a stockholder of Glen Alden allegedly on behalf of the corporation, and representatively on behalf of its stockholders, and the complaint (as amended) names as defendants Glen Alden, its directors (other than Messrs. Bunim, Humphrey, Lapkin, and Singer), Simon H. Fabian, Samuel Rosen, David G. Baird, Serge Semenenko, Joseph Lubin, and Jack Rosen. The complaint alleges, in essence, that (a) the amount paid by Glen Alden to Fabian Enterprises Inc. for its shares of Warner Common Stock was in excess of the fair market value of that stock; (b) the agreement to pay Mr. Baird the sum of $3,000,000 for his services in connection with the transactions related to Warner (and the agreement by Mr. Baird to pay a portion of this fee to Mr. Semenenko) are illegal; (c) the agreement to pay Mr. Fabian and Samuel Rosen each $42,000 annually for ten years in return for an agreement not to compete with Glen Alden is illegal; and (d) agreements to pay $4,000,000 to Mr. Lubin and $1,000,000 to Mr. Jack Rosen, respectively, for their services in connection with the transactions involving Schenley Common Stock are illegal. The complaint seeks an injunction against the consummation of the aforesaid agreements, the cancellation of such agreements and the return to Glen Alden of any payments made thereunder, an accounting by all defendants other than Glen Alden for their alleged profits and the alleged damages to Glen Alden by virtue of the aforesaid transactions, and attorneys' and accountants' fees. Glen Alden has not yet answered the amended complaint in this action. The second action brought by Mr. Weinberger is alleged to be brought on behalf of Warner and its stockholders. The defendants are Warner, certain of the directors of Warner, Glen Alden, Fabian Enterprises Inc., and Messrs. Baird and Semenenko. The suit seeks a judgment on behalf of Warner for alleged damages caused to Warner as a result of the aforesaid transactions relative to Warner, an accounting for any profits made by any of the defendants other than Warner, and attorneys' and accountants' fees. Glen Alden has filed an answer denying the material allegations of the complaint in this action. Indemnification from Glen Alden has been claimed in both actions under the agreement for the purchase of the aforesaid shares of Warner Common Stock.

On or about June 7, 1968, a third action was instituted by Mr. Weinberger, in the United States District Court, Southern District of New York, allegedly on behalf of Glen Alden, and representatively on behalf of its stockholders. The defendants are Glen Alden, its directors (other than Messrs. Bunim, Humphrey, Lapkin, and Singer) and Messrs. Baird, Semenenko, Lubin and Jack Rosen. The complaint alleges, in essence, that the aforesaid agreements with Messrs. Baird, Lubin and Rosen are unlawful. The complaint seeks an injunction against the carrying out of these agreements, the cancellation of these agreements and recovery of any payments made thereunder, recovery of any damages sustained by Glen Alden and profits made by the individual defendants, and attorneys' and accountants' fees. Glen Alden has filed an answer denying the material allegations of the complaint in this action.

Counsel to Glen Alden, Messrs. Strasser, Spiegelberg, Fried & Frank, have advised that, based upon the facts as presently known to them, to the extent that liability is asserted against Glen Alden, either on its own behalf or as an indemnitor, in their opinion Glen Alden has a meritorious defense to the Weinberger actions and should prevail.

In connection with the merger of Warner into Glen Alden, the Federal Trade Commission advised Glen Alden and Warner it was investigating possible antitrust and related aspects of the transaction and requested certain information with respect to the business of Warner.

On or about May 20, 1968, an action was instituted in the Supreme Court, New York County by Jacob Bernard Rosenfeld, an alleged stockholder of Rapid-American Corporation, allegedly suing on behalf of Rapid-American Corporation, McCrory Corporation, and Glen Alden. The complaint alleges that the allocation of bonus shares by Glen Alden to Meshulam Riklis, Isidore A. Becker, and Leonard C. Lane (all directors and officers of Glen Alden), pursuant to a Key Executives' Stock Bonus Plan adopted in March 1968, subject to shareholder ratification, and the allocation of such shares by McCrory Corporation and Rapid-American Corporation, under similar plans, to certain employees, constitutes a waste of assets to Glen Alden, McCrory Corporation, and Rapid-American Corporation. Plaintiff requests an injunction against each of the corporations' putting into effect its Key Executives' Stock Bonus Plan, an accounting for alleged profits by the individual defendants and losses by the corporations, and attorneys' fees. Glen Alden has not yet answered the complaint in this action.

For a description of certain additional pending litigation, reference is made to "Background of Transaction—Legal Proceedings" and to "Glen Alden Corporation—History and Business—RKO-Stanley Warner Theatres Division".

## MANAGEMENT OF GLEN ALDEN

**Officers and Directors**

The following persons hold the following offices in Glen Alden:

| | |
|---|---|
| Meshulam Riklis* | Chairman of the Board and Chief Executive Officer |
| Isidore A. Becker* | Vice Chairman of the Board |
| David Bunim | Director |
| Frank Burnside | Director |
| Ralph E. Case | Director |
| Patrick J. Clifford* | Director |
| Maurice Goodman | Director |
| Luther H. Hodges | Director |
| J. W. Humphrey | Director |
| Wentworth P. Johnson* | Director |
| Paul A. Johnston* | President, Chief Operating Officer and Director |
| Sol Kittay* | Chairman of the Executive Committee of the Board |
| Leonard C. Lane* | Vice Chairman of the Board |
| Nathaniel Lapkin | Executive Vice President and Director |
| Samuel J. Levy | Director |
| Austin List | Vice President and Director |
| Charles F. McKhann | Director |
| M. Lester Mendell* | Director |
| Gilbert H. Perkins* | Director |
| Bert R. Prall | Director |
| Carl N. Singer | Vice President and Director |
| Harry H. Wachtel | Director |

* At the next Glen Alden Annual Meeting of Stockholders, Glen Alden has proposed to reduce the number of the Board of Directors to nine and to nominate Messrs. Riklis, Becker, Clifford, Wentworth P. Johnson, Paul A. Johnston, Kittay, Lane, Mendell and Perkins for election as directors.

| | |
|---|---|
| Stuart H. Aarons | Secretary |
| John A. Boland, Jr. | Vice President |
| Bernhardt Denmark | Vice President |
| Nisson A. Finkelstein | Vice President—Research and Development |
| Arthur M. Michaelson | Vice President—Legal |
| D. Irving Obrow | Vice President—Finance and Treasurer |
| Matthew Polon | Vice President |
| Charles E. Tennesson, Jr. | Vice President |
| Lloyd G. Wilson | Vice President |

For more than the past five years, Mr. Meshulam Riklis has been the Chief Executive Officer of McCrory Corporation ("McCrory") and of Rapid-American Corporation ("Rapid-American"). Mr. Riklis was Vice Chairman of the Board of Glen Alden from 1964 to 1965 and has been Chairman of the Board of Glen Alden since 1965.

Mr. Paul A. Johnston was Vice President of Martin-Marietta Corporation and President of its Cement and Lime Division from 1963 to 1965 and has been President of Glen Alden since that date.

For more than five years prior to Glen Alden's acquisition of B.V.D. in May 1967, Mr. Sol Kittay was the Chairman of the Board and President of B.V.D.

For more than the past five years, Mr. Isidore A. Becker and Mr. Leonard C. Lane have been executives of McCrory and Rapid-American.

Mr. Nathaniel Lapkin has been Executive Vice President of Glen Alden since the merger of Warner and Glen Alden in December 1967. For more than five years prior thereto he was an executive of Warner.

Messrs. Bernhardt Denmark, D. Irving Obrow and Stuart H. Aarons have held their present offices in Glen Alden since March 27, 1968. For more than five years prior thereto each of these persons was an executive of Warner.

Dr. Nisson A. Finkelstein was elected to his present office on May 1, 1968. For more than four years prior thereto he was an executive of Warner, and before that he was Vice President of General Dynamics (Electronics Division).

Messrs. Austin List, Matthew Polon, and Lloyd G. Wilson have been executives of Glen Alden for more than the past five years.

Mr. John A. Boland, Jr. has been an executive with Glen Alden since December 1965. Prior thereto he was an executive with LaFrance Industries (textile manufacturers).

Mr. Arthur M. Michaelson has been Vice President—Legal of Glen Alden since March 27, 1968. Mr. Michaelson was a member of the law firm of Wachtel & Michaelson from prior to 1963 until May 1966 and from May 1966 until March 1968 he was an executive of McCrory.

Mr. Carl N. Singer has been a Vice President of Glen Alden since November 8, 1967. Before that he was the chief executive officer of Scripto, Inc., and before that he was the President of Sealy, Inc.

Mr. Charles E. Tennesson, Jr. has been a Vice President of Glen Alden since January 1, 1967. Before that he was an executive of Martin-Marietta Corporation.

**Remuneration**

The aggregate remuneration received from Glen Alden during the year 1967 for services in all capacities by (1) each director, and each of the three highest paid officers of Glen Alden, whose remuneration exceeded $30,000, and (2) all persons as a group who were directors or officers of

Glen Alden is set forth in the following table. The estimated annual benefit to be payable under applicable retirement plans is also shown.

| Name | Capacities in Which Remuneration Was Received | Aggregate Remuneration | Estimated Annual Benefit on Retirement Under Retirement Plans |
|---|---|---|---|
| Meshulam Riklis | Chairman of the Board | $ 100,000 | — |
| Leonard C. Lane | Vice Chairman of the Board | 40,000 | — |
| Paul A. Johnston | President | 130,000(2) | — |
| Sol Kittay | Chairman of the Board of B.V.D. | 75,000 | — |
| Austin List | Vice President and President of Opp and Micolas Cotton Mills | 75,100(3) | $17,947 |
| All directors and officers as a group (29 persons, including the above) | | $1,025,308(1) | |

(1) Includes $25,000 paid to Maurice Goodman as a consultant and $77,401 paid to him pursuant to an agreement made on January 27, 1964 (when he was not a director of Glen Alden) in connection with the disposition of certain assets of Glen Alden.

(2) Under a contract effective May 1, 1968, Mr. Paul A. Johnston will receive a salary at the rate of not less than $210,000 per year for a term of five years. During the term of the agreement, Mr. Johnston may, if his duties or title are changed, elect to terminate his full time employment with Glen Alden and become a part time employee of Glen Alden, compensated at the rate of $67,500 per year. If Mr. Johnston is employed by Glen Alden for a period of ten years or more from May 1, 1968, he will be entitled to receive an annual retirement payment calculated on the basis of $25,000 a year ($20,000 per year if such period is less than ten years), less any amounts received under the Glen Alden retirement plan. Mr. Johnston has agreed to render advisory services to Glen Alden after the termination of his employment, and has agreed not to compete with Glen Alden for a period of one year after such termination, unless such termination is at the election of Glen Alden and Mr. Johnston is not yet sixty-five years old and is willing to continue to work on a full time basis for Glen Alden on the same terms and conditions as those prevailing prior to such termination. If, during the term of the agreement, Mr. Johnston becomes incapacitated to the extent that he is unable to perform his duties and if such incapacity continues until the termination of his employment, then Glen Alden will pay to Mr. Johnston, commencing upon the termination of his employment, the sum of $25,000 per annum, in equal monthly installments, during the remaining portion of his life. If Mr. Johnston dies at any time during his employment by Glen Alden, Glen Alden will make payments to Mr. Johnston's wife in an aggregate amount no greater than Mr. Johnston's annual salary at the rate prevailing immediately prior to his death.

(3) Under a three year contract effective October 1, 1965 and renewed for a second three year period Mr. Austin List received a salary at the rate of $50,000 per annum until April 1, 1966 and thereafter received a salary at the rate of $60,000 per annum until April 1, 1968 when that rate was raised to $75,000 per annum. If Mr. List is employed for a period of ten years or more from October 1, 1965 he will be entitled to receive an annual retirement sum of $10,000 a year, less any amounts received under the Retirement Plan, payable in an amount and subject to the conditions provided in such contract, commencing on the last day of the month in which Mr. List reaches the age of 60 or the last day of the month in which his death occurred prior thereto.

(4) A contract dated January 1, 1959, and since amended, provides, effective August 3, 1967 and until August 2, 1972, for the payment to Mr. Nathaniel Lapkin, Executive Vice President of Glen Alden, of a salary of $3,750 per week and a non-accountable expense allowance of $250 per week during active employment. It also provides for advisory services by Mr. Lapkin following termination of active employment, at a compensation of $1,000 per week for 520 weeks plus the number of weeks corresponding to the period of time during which Mr. Lapkin served as Chairman of the Executive Committee of Stanley Warner Corporation (July 26, 1966 to December 22, 1967) plus the number of weeks after December 22, 1967 corresponding to the period during which Mr. Lapkin performed services as a member of the Executive Committee of Glen Alden, of which he has been a member since December 22, 1967.

(5) A contract effective September 1, 1966 provides for the payment, for a period of six years from September 1, 1966, to Mr. Bernhardt Denmark, Vice President of Glen Alden, of a salary of $90,000 per year (which salary was adjusted to $120,000 per year as of January 1, 1968) plus certain incentive compensation; the incentive compensation consists of an amount equal to ¼ of 1% of the net operating profits in excess of $5,000,000 from the world wide sales of one of the divisions of Glen Alden, but said incentive compensation can in no event exceed $60,000 in any year.

(6) Each of the persons named in the foregoing table is employed on a full-time basis by Glen Alden, with the exception of Messrs. Riklis and Lane, who are also officers of Rapid-American and McCrory.

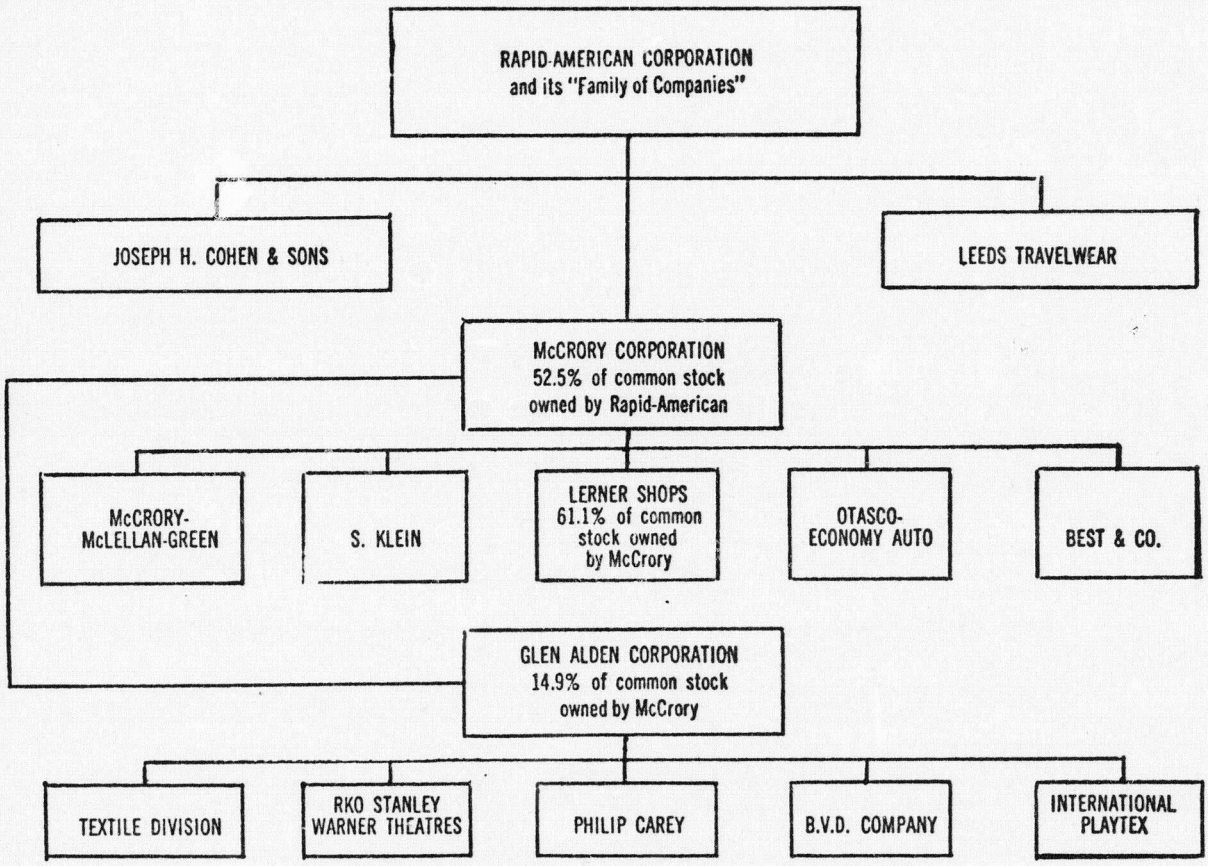
(7) For information as to the participation of certain officers in the Key Executives' Stock Bonus Plan of Glen Alden, see "Stock Bonus Plans" below.

(8) Effective January 1, 1968 Mr. Riklis' salary was raised to $175,000 per annum, Mr. Lane's salary was raised to $140,000 per annum and Mr. Isidore A. Becker, Vice Chairman of the Board who received no salary from Glen Alden in 1967, was granted a salary of $100,000 per annum for 1968.

*Family of Companies*

The following chart describes Rapid-American Corporation and its "Family of Companies" and the percentages of ownership (where less than 100%) at June 30, 1968.

Mr. Meshulam Riklis is Chairman of the Board and Chief Executive Officer of Rapid-American Corporation, McCrory Corporation and Glen Alden. (See "Principal Stockholders of Glen Alden" below.)




## PRINCIPAL STOCKHOLDERS OF GLEN ALDEN

The following table shows as of June 30, 1968 certain information as to the voting securities of Glen Alden owned of record or beneficially by each person who owned of record or is known by Glen Alden to own beneficially more than 10% of any class of its outstanding voting securities:

| Name and Address | Title of Class | Type of Ownership | Shares Owned | Approximate Percentage of Class |
|---|---|---|---|---|
| McCrory Corporation(1)..... 711 Fifth Avenue New York, N. Y. | Common Stock | Record and Beneficial | 2,388,230 | 14.9% |
| Sol Kittay(2)..... 299 Park Avenue New York, N. Y. | Class C (Contingent Preference) Stock | Record and Beneficial | 121,574 | 45% |
| Mrs. Sol Kittay..... 299 Park Avenue New York, N. Y. | Class C (Contingent Preference) Stock | Record and Beneficial | 118,916 | 44% |

(1) As of June 30, 1968 Rapid-American owned 2,621,268 shares of McCrory's Common Stock, approximately 52.5 % of the outstanding shares thereof. Said shares on that date were pledged to two major eastern banks, a major

insurance company and two other institutional lenders, none of which is in any way affiliated with Rapid-American or any of its subsidiaries, as security for indebtedness of $22,000,000 as of June 30, 1968. As of the same date Mr. Meshulam Riklis, the Chairman of the Board of Glen Alden, owned 364,443 shares (11.6%) of the outstanding Common Stock of Rapid-American, 6,500 shares of Rapid-American 5% Cumulative Convertible Preferred Stock and 11,858 shares of Rapid-American $2.25 Cumulative Convertible Preferred Stock. As of the same date, members of Mr. Riklis' immediate family, including trusts for the benefit of his children, owned 30,058 shares of Rapid-American Common Stock and $291,100 principal amount of Rapid-American 5¾% Convertible Subordinated Debentures as to all of which Mr. Riklis disclaims beneficial ownership.

(2) As of March 1, 1968, a trust as to which Mr. Kittay has the remainder interest owned 43,317 shares (9.9%) of Glen Alden's $3.15 Cumulative Convertible Preferred Stock.

The directors and officers of Glen Alden have reported direct and indirect beneficial ownership, as a group, of the following classes of equity securities of Glen Alden, as of February 26, 1968, or of McCrory or Rapid-American (who may be deemed to be parents of Glen Alden), as of March 15, 1968:

| Title of Class | Amount Beneficially Owned | Percentage of Class |
|---|---|---|
| GLEN ALDEN: | | |
| Common Stock | 14,345 shs. | * |
| Class C (Contingent Preference) Stock | 245,640 shs. | 94.8% |
| $2.25 Senior Cumulative Convertible Preferred Stock | 200 shs. | * |
| Class B Senior Cumulative Convertible ($3) Preferred Stock | 21,695 shs. | 1.7% |
| $3.15 Cumulative Convertible Preferred Stock | 100 shs. | * |
| MCCRORY: | | |
| Common Stock | 70,800 shs. | 1.4% |
| 6½% Convertible Subordinated Debentures | $1,467,500 | 12.1% |
| RAPID-AMERICAN: | | |
| Common Stock | 489,642 shs. | 17.0% |
| 5% Cumulative Convertible Preferred Stock | 7,000 shs. | 87.5% |
| 5¾% Convertible Subordinated Debentures | $ 812,000 | 6.5% |
| $2.25 Cumulative Convertible Preferred Stock | 14,758 | 2.5% |

* Less than 1%.

In addition, directors and officers of Glen Alden, as a group, reported ownership by certain trusts, foundations, family members, and other related persons of 43,317 shares (9.9%) of Glen Alden $3.15 Cumulative Convertible Preferred Stock, 630 shares of McCrory Common Stock, 55,694 shares of Rapid-American Common Stock and $421,500 principal amount of Rapid-American 5¾% Convertible Subordinated Debentures.

## GLEN ALDEN OPTIONS

Glen Alden presently has in effect a qualified stock option plan (the "1965 Qualified Stock Option Plan") under which 250,000 shares of Common Stock were reserved for issuance in 1965. The Board of Directors of Glen Alden on March 27, 1968 amended the Plan, subject to approval of Glen Alden stockholders, to increase the maximum number of shares which may be optioned under the Plan to 850,000 shares. Management proposes to submit this amendment to the stockholders of Glen Alden at the next annual meeting. Options granted under the Plan are intended to be "qualified stock options" under Section 422 of the Internal Revenue Code of 1954, as amended. The option price for each option granted under the Plan must be at least equal to the fair market value of the Common Stock of Glen Alden on the date of grant. No such option may be exercised later than five years after the date of its grant. No part of the option is exercisable until six months after the date of grant, not more than 25% of the shares of Common Stock subject to the option is purchasable within 15 months from the date of grant, not more than 50% of such shares is purchasable within two years from the date of grant, not more than 75% of such shares is purchasable within 33 months from the date of grant, and any part or all of the shares of Common Stock subject to the option are purchasable during the remaining term of the option.

On June 30, 1968 Glen Alden had outstanding the following options to purchase shares of its capital Stock:

| Description | Number and Class of Stock | Purchase Prices | Expiration Dates |
|---|---|---|---|
| (a) 1965 Qualified Stock Option Plan | 591,178* shares of Common Stock | $ 9.75–$15.75 | 3/15/70– 6/25/73 |
| (b) Restricted Stock Options | 5,017 shares of Common Stock | $ 8.49–$14.49 | 8/31/68– 8/31/70 |
| (c) B.V.D. Substitute Options | 17,786 shares of $3.15 Cumulative Convertible Preferred Stock | $48.75–$80.25 | 5/14/69– 8/31/71 |
| (d) Warner Assumed Options | 83,382 shares of Class B Senior Cumulative Convertible ($3) Preferred Stock | $17.49–$97.95 | 5/16/71–12/26/72 |

* Including options to purchase 418,178 shares of Common Stock which are subject to stockholder appr[illegible] the amendment to the 1965 Qualified Stock Option Plan described above.

The Restricted Stock Options referred to above were issued under Glen Alden's Restricted Stock Option Plan which has been terminated. The options are intended to be "restricted stock options" within the meaning of Section 421 of the Internal Revenue Code. The exercise price at which all of the outstanding options were issued under this Plan was at least 95% of the fair market value of the stock subject to option at the date the option was granted. The Plan required each employee who was not under contract with Glen Alden or a subsidiary at the date he was granted an option to agree to remain in the employ of Glen Alden or a subsidiary for at least two years from such date.

The "B.V.D. Substitute Options" referred to above were issued by Glen Alden upon the acquisition of B.V.D. in May 1967 to employees of the former The B.V.D. Company, Inc. who held options to purchase shares of former B.V.D. Common Stock. These options were intended to qualify as restricted stock options or qualified stock options under Sections 421 and 422 of the Internal Revenue Code. Each B.V.D. employee received an option to purchase one share of Preferred Stock of Glen Alden for each three shares of Common Stock of the former B.V.D. Company purchasable under the former B.V.D. option then held by him, and such Substitute Option was exercisable at a price per share of Preferred Stock equal to three times the purchase price per share of former B.V.D. Common Stock under the former B.V.D. option and otherwise contained terms and provisions identical to those contained in the former B.V.D. option.

The "Warner Assumed Options" referred to above constitute options originally issued by Warner to its employees to purchase shares of Warner Common Stock, and intended to qualify as restricted or qualified stock options under Sections 421 and 422 of the Internal Revenue Code. Upon the effectiveness of the merger of Warner into Glen Alden in December 1967 these options became obligations of Glen Alden with appropriate adjustment so that each option is presently exercisable for the same number of shares of Class B Senior Stock as the optionholder would have been entitled to had he exercised his option in full immediately before the effective date of the merger (fractional shares being disregarded), and the option price per share of Class B Senior Stock was appropriately increased.

As of June 30, 1968 the following officers and directors held the following outstanding options, all of which were granted under Glen Alden's 1965 Qualified Stock Option Plan:

| Name | Number of Shares | Average Option Price | Expiration Date |
|---|---|---|---|
| Meshulam Riklis | 75,000 | $14.25 | 3/15/70 |
| Paul A. Johnston | 35,000 | 14.25 | 3/15/70 |
| Austin List | 8,000 | 13.00 | 12/13/70 |
| All officers and directors as a group | 198,290 | 14.42 | 3/15/70-6/25/73 |

Officers and directors of Glen Alden hold options to purchase an aggregate of 850 shares of Common Stock under Glen Alden's Restricted Stock Option Plan. The exercise price of the foregoing options is $10.57 per share. The options expire February 28, 1969.

As of June 30, 1968 the officers and directors of Glen Alden as a group held Warner Assumed Options to purchase an aggregate of 28,435 shares of Class B Senior Stock at an average option price of $69.93; these options expire between May 16, 1971 and December 26, 1972. No B.V.D. Substitute Options are held by officers or directors of Glen Alden.

On August 6, 1968 the reported closing prices on the New York Stock Exchange of the various classes of Glen Alden capital stock subject to options as described above were:

| | |
|---|---|
| Common Stock | $ 15¾ |
| Preferred Stock | 119 |
| Class B Senior Stock | 109 |

## STOCK BONUS PLANS

On March 27, 1968 the Board of Directors of Glen Alden adopted, subject to ratification by stockholders at a forthcoming meeting, a Key Executives' Stock Bonus Plan and reserved 90,000 shares of Glen Alden Common Stock for issuance as Bonus Shares under the Plan. At the same meeting (the recipients of the allocation not voting) the Board of Directors allocated Bonus Shares under the Plan to the following officers and directors of Glen Alden: to Meshulam Riklis 22,500; to Paul A. Johnston 17,500; to Isidore A. Becker 17,500; to Leonard C. Lane 17,500; and to Nathaniel Lapkin 15,000. The recipients have paid to Glen Alden a sum equal to the par value of the Common Stock, $1 per share. On the date of the allocation, the reported closing price of Glen Alden's Common Stock on the New York Stock Exchange was $13.375. Under the Plan the Bonus Shares are held with an escrow agent for a "Restricted Period" during which they may not be transferred, pledged or otherwise disposed of by the recipient (except for certain permitted transfers in the event of his death) unless he first offers the shares to Glen Alden for repurchase at the same amount as he paid for the shares under the Plan. Moreover, under certain circumstances if the recipient's employment is terminated, all or a portion of his Bonus Shares must be offered to Glen Alden for repurchase at said amount. Depending upon certain elections available to the recipient, some of the Bonus Shares may be released from restrictions as early as 35 months from the date of issuance and some may remain subject to restrictions until as late as 95 months from date of issuance.

Under a substantially identical plan adopted by Rapid-American (subject to shareholder approval and to the listing of the stock on the American Stock Exchange), on April 2, 1968 Mr. Riklis was allocated 35,000 shares of its common stock, and Messrs. Becker and Leonard C. Lane were allocated 23,500 shares and 16,000 shares respectively. Messrs. Riklis, Becker and Lane are each required to pay to Rapid-American an amount equal to the par value of the common stock, $1 per share. McCrory Corporation, which has a substantially identical plan, has not allocated any shares under such plan to any executive who is also an officer or director of Glen Alden. (See "Legal Proceedings—Glen Alden".)

The Board of Directors of Glen Alden has also adopted, subject to stockholder ratification, a Management Stock Bonus Plan and reserved 100,000 shares of Common Stock for issuance as Bonus Shares under this Plan. The Management Stock Bonus Plan is similar, in its broad outlines, to the Key Executives' Stock Bonus Plan, the principal areas of difference being that under the Management Plan

the "Restricted Period" is somewhat longer (with no elections being available to the recipient) and a greater percentage of Bonus Shares must be offered to Glen Alden for repurchase upon termination of employment under various circumstances. Subject to stockholder approval of the Plan, 62,000 shares have been allocated to executives (other than those receiving stock allocations under the Key Executives' Stock Bonus Plan) of Glen Alden and its subsidiaries.

In the opinion of Messrs. Hanigsberg, Delson & Broser, tax advisors to Glen Alden: (a) an employee receiving Bonus Shares under either Stock Bonus Plan will not realize any taxable income at the time of issuance of such Shares but will be deemed to receive compensation, taxable as ordinary income, at such time or times as the "Restricted Period" in respect of such Bonus Shares lapses in an amount equal to the lesser of (i) the difference between the amount paid for the Bonus Shares and the fair market value of such shares at the time the employee acquired them or (ii) the difference between the amount paid for the Bonus Shares and their fair market value at the time the "Restricted Period" in respect of such shares lapses, (b) Glen Alden will be entitled to a deduction at the times and in the amounts that taxable compensation is deemed received by the employee, and (c) upon subsequent sale of the Bonus Shares by the employee any gain or loss will be a capital gain or loss unless at the time of such sale the Shares are not a capital asset in the hands of the employee.

Shortly after the Warner merger, Glen Alden by separate agreements ("the Stock Purchase Agreements") granted the right to purchase an aggregate of 27,500 shares of Class B Senior Stock of the Corporation, at a purchase price of $90.91 per share in cash to eight executives of Warner (including three present officers of Glen Alden who received the right to purchase an aggregate of 9,900 shares). Two such executives who are officers of Glen Alden were allocated shares under the Glen Alden Management Stock Bonus Plan and they agreed to the cancellation of their right to purchase an aggregate of 7,700 shares of Class B Senior Stock under Stock Purchase Agreements, the cancellation to become effective only if the Management Stock Bonus Plan is approved by the stockholders of Glen Alden on or before December 31, 1968. The employment of other executives who had the right to purchase 9,900 shares in the aggregate was terminated, and they have received an aggregate of 385 shares of Class B Senior Stock in full discharge of all their rights under said agreements. The Stock Purchase Agreements were approved by the stockholders of Glen Alden at a special meeting held December 20, 1967. Pursuant to the Stock Purchase Agreements each purchaser has paid Glen Alden 5% of the aggregate purchase price for the shares which he is entitled to purchase. The shares have been delivered to Trustees who have agreed to hold the same pending the exercise by each purchaser of his right to purchase, or the expiration of such right. Each Stock Purchase Agreement provides that the initial right to purchase expires on November 30, 1970, that the purchaser is entitled to obtain two yearly extensions by additional payments of 5% of the aggregate purchase price for each such extension, and a third yearly extension expiring November 30, 1973 upon payment of an additional 10% of such aggregate purchase price. Upon completion of any purchase, the purchaser will receive credit for any and all payments theretofore made. If a purchaser voluntarily terminates his employment or is discharged for cause prior to exercising his rights, his right to purchase under the Stock Purchase Agreements will automatically terminate and he will not be entitled to reimbursement for any payments previously made. If a purchaser's employment is terminated by death or for any other reason (other than by the employer for cause) the purchaser or his estate, as the case may be, will be entitled to purchase the number of shares of Class B Senior Stock of the Corporation which, at $90.91 per share, equals the number of whole shares which his payments previously made would have entitled him to purchase. Upon the consummation of any purchase, the Trustee will make delivery to the Purchaser of the securities purchased against payment of the purchase price, which will be remitted to Glen Alden. Upon expiration of any purchaser's rights to purchase, the Trustee will return to Glen Alden all such unsold securities for cancellation and retirement, together with all previous payments, free of any claim by such purchaser.

## SCHENLEY INDUSTRIES, INC.

All information as to Schenley included in this Prospectus has been furnished by Schenley. In connection with the furnishing of such information, Glen Alden, by a letter dated March 28, 1968, agreed with Schenley to reimburse it for any legal, accounting or other expenses incurred by Schenley in collating,

preparing and submitting such information and to indemnify Schenley, its officers and directors against any claim based on the fact that it has submitted such information to Glen Alden.

The furnishing of such information by Schenley constitutes neither an approval by Schenley, its Board of Directors or any of its officers or directors, individually, of the terms and conditions of the exchange offer contained herein, nor a recommendation to any holders of Schenley Common Stock that they accept such offer. The Board of Directors of Schenley has not taken any action approving or disapproving the exchange offer.

Schenley was incorporated in Delaware on July 13, 1933 under the name Schenley Distillers Corporation. Its name was changed to Schenley Industries, Inc. on January 4, 1949. Schenley's executive offices are located at 1290 Avenue of the Americas, New York, N. Y. 10019. The term "Schenley", as used herein, includes Schenley Industries, Inc. and its active subsidiaries and affiliates, except as the context otherwise requires.

Schenley's principal business is the production, importation and sale of alcoholic beverages. Schenley owns 52.66% of the outstanding capital stock of The Buckingham Corporation, a Delaware corporation engaged in the distribution of Scotch whisky in the United States (see "Legal Proceedings—Schenley"), which it acquired as an investment. Schenley also owns 75% of the outstanding capital stock of Seager Evans & Co. Ltd., a British distilling corporation.

## BUSINESS AND PROPERTIES OF SCHENLEY

Schenley is engaged in the production, importation and sale of alcoholic products for beverage purposes, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties. It is also engaged in various related activities such as the production and sale of commercial rum, cooperage, farm feeds, and the distribution of gourmet foods in the western states, which in the aggregate are not significant in relation to its overall business.

### Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases overseas, distribution rights.

*Domestic Alcoholic Beverages*—Brands of domestic whiskies owned by Schenley include *Ancient Age, J. W. Dant, I. W. Harper* and *Old Charter* Bourbon whiskies; *Melrose, Park & Tilford, Schenley Reserve* and *XL* blended whiskies; and *George Dickel* and *Tennessee Walking Horse* Tennessee whiskies. Schenley owns numerous other brands of domestic gins, brandies (including *Coronet*), vodkas (including *Samovar*), cordials, prepared cocktails and other domestic spirit beverages. Schenley owns the *Dubonnet* brand in the United States for alcoholic beverages, and owns and distributes *Ron Carioca* Puerto Rican rum.

*Imported Alcoholic Beverages*—Brands of imported beverages owned by Schenley include *Long John* and *Park & Tilford* Scotch whiskies; *MacNaughton* and *OFC* Canadian whiskies; *Coates Plymouth* and *Seager's* gins; as well as other brands of rums, gins, brandies, liqueurs, tequila and wines. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include *Dewar's White Label* Scotch whisky; *Otard* cognac; *Calvet* and *Mateus* wines; *Lanson* champagne, and the *Stock* line of vermouth, brandy, liqueurs and other products. The Buckingham Corporation, 52.66% of the capital stock of which is owned by Schenley, has the United States distribution rights for *Cutty Sark* Scotch whisky under an agreement extending to January 1, 2000. *Dewar's White Label* Scotch whisky has been distributed under contracts, which have been renewed from time to time since 1936 and the

latest of which extends to April 1969. Negotiations for a further extension of the present agreement are pending. Agreements with respect to other distribution rights expire at various dates from August 31, 1968 through April 30, 1990.

*Domestic Wines*—Brands of domestic wines owned by Schenley, include *Cook's Imperial, Cresta Blanca* and *Roma.*

Schenley sells a full line of alcoholic beverages, which it seeks to market in all price categories. The extent of consumer acceptance and profitability varies among Schenley's product lines and among the brands in each line. No single domestic brand accounted for as much as 10% of case sales for the fiscal year ended August 31, 1967. *Ancient Age,* a straight bourbon whiskey, accounted for approximately 7.5% of case sales, and sales of *Dewar's White Label* Scotch whisky accounted for approximately 6.1% of case sales during such period. The portion of Schenley's revenues derived from its investment in the stock of The Buckingham Corporation amounted to approximately 5.4% during such fiscal year.

Among the principal trends in recent years in the domestic market has been the attainment of a greater share of the market by straight whiskies as against blended whiskies and an increase in the share of the market accounted for by Scotch whiskies and Canadian whiskies among the imports.

The following table sets forth the approximate percentage of total case sales represented by the various principal categories of alcoholic beverages sold by Schenley during the five fiscal years ended August 31, 1967 and for the nine months ended May 31, 1968. Each such principal category has been profitable. However, Schenley's profits on the sale of straight whiskies, Canadian whiskies and Scotch whiskies generally are higher than on the sale of its other products.

| | 1963 | 1964 | 1965 | 1966 | 1967 | Nine Months 1968 |
|---|---|---|---|---|---|---|
| Blended whiskies | 15.3% | 13.9% | 13.3% | 12.0% | 11.0% | 9.2% |
| Straight whiskies | 38.9 | 36.8 | 33.6 | 31.3 | 33.6 | 38.2 |
| Scotch whiskies | 7.6 | 8.4 | 13.0 | 15.4 | 15.7 | 13.0 |
| Canadian whiskies | 8.0 | 8.4 | 8.3 | 8.7 | 11.1 | 12.6 |
| Wines | 17.1 | 18.8 | 19.1 | 19.0 | 15.5 | 14.7 |
| Other* | 13.1 | 13.7 | 12.7 | 13.6 | 13.1 | 12.3 |

* Gins, vodkas, rums, brandies, cocktails, cordials, etc.

(1) For completeness only, the table includes the portion of sales of The Buckingham Corporation equivalent to Schenley's investment therein from September 1, 1964.

(2) Excludes sales of Seager Evans & Co. Ltd. products overseas and sales of export products from the U. S.

(3) As used in the foregoing table and elsewhere herein, the term "case sales" includes bottled goods, and also bulk sales of alcoholic beverages on the basis of an average of 2.4 proof gallons to the case as to distilled spirits, and an average of 3 wine gallons to the case as to wines.

**Distribution and Marketing**

In the domestic market, 18 states have established liquor distribution systems under which sales of alcoholic beverages are made directly through state liquor control boards and commissions. Schenley sells to all of these states. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers, and in certain markets through Schenley's wholly-owned wholesalers.

In the fiscal year ended August 31, 1967, no wholesale distributor accounted for more than 3% and no state control board accounted for more than 5.4% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley maintains sales organizations in eleven countries outside of the United States. Sales in foreign markets would account for approximately 9.4% of total dollar sales for the fiscal year ended

August 31, 1967 on the basis of inclusion of the sales in those markets of Seager Evans & Co. Ltd. attributable to Schenley's ownership interest.

Major trademarks of Schenley are registered in important countries of the world. Trademark licensing agreements are in effect with customers in 13 foreign countries, who produce products under these marks on a royalty basis. Other trademark licensing agreements are in effect with customers in 15 foreign countries on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley.

Schenley advertises all of its alcoholic beverage products extensively, using various media, including magazines, newspapers, outdoor signs and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are, however, subject to close regulation under Federal, state and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley places the principal share of its advertising through advertising agencies owned by it.

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. Schenley believes it is the third or fourth largest company in the industry in the United States in terms of alcoholic beverage sales.

**Inventories and Raw Materials**

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley ages its whiskies for four years or more. As a result, inventories are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future. Schenley purchases bulk whiskies from, and from time to time sells bulk whiskies to, others. The distilling industry's productive capacity is substantially greater than the present rate of consumption. Schenley believes that its inventories of whiskies and its productive capacity are greater in relation to its total sales than is the case in the industry in general.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, grapes, white oak for barrels, flavoring and bottling supplies. Schenley purchases its grains, some grapes, and the other materials from numerous sources. Schenley produces its own barrels, purchasing the rough staves and heading used in their production, and sells barrels to other distillers and users.

Schenley grows in its own vineyards in California much of the supply of grapes used in the production of its wines and brandies, purchasing quantities of grapes from other growers in accordance with its requirements.

Since Schenley's basic raw materials are agricultural products, prices and costs are subject to the usual influences on that market, including climate, governmental production and marketing controls and price supports. The markets for these raw materials are competitive and there are many suppliers. Schenley is not dependent on any one outside supplier for any of its raw materials. Schenley purchases its requirements of bottles and other packaging materials from various manufacturers and distributors.

**Regulation and Taxation**

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. In recent years several states, led by

Kansas and New York, have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in other states. States in which alcoholic beverages are distributed through state agencies have for many years required suppliers to make warranties of a like tenor. Several states regulate the mark-up which may be made in prices at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships by local option to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales also are subject to varying types of regulation, licensing and supervision in Canada and other countries. (See also "THE EXCHANGE OFFER—Compliance With Alcoholic Beverage Laws".)

The products sold by Schenley are subject to a Federal excise tax on distilled spirits of $10.50 per proof gallon ($10.80 per proof gallon on rectified products), varying Federal customs duties on imports, the most important of which, in relation to Schenley's products, are duties of $.91 per gallon on Scotch whiskies and $1.12 per gallon on Canadian whiskies, and other excise taxes, the most important of which are state gallonage taxes varying in amount from $1.15 to $4.00 per gallon.

**Employees**

Schenley employs approximately 6,400 people regularly, and approximately 8,000 people at peak seasons, in the United States and Canada. It has contracts with a number of labor unions, expiring at various dates through April 1971, covering classes of non-executive employees. During recent years Schenley has granted wage increases from time to time. No single increase has been substantial in relation to total wages paid and no unusual increases are now contemplated.

There are approximately 1,300 employees in countries other than the United States and Canada of whom approximately 320 are members of labor organizations with which Schenley has contracts.

In general, labor relations have been satisfactory and there have been no major work stoppages in recent years that are material to Schenley's overall business. Schenley maintains pension plans and other benefit plans for its employees, some of which are contributory and some of which are non-contributory, and contributes to union pension and welfare plans.

**Property**

Schenley operates 29 plants for the production of alcoholic beverages, including the 15 plants of Seager Evans & Co. Ltd., the British subsidiary in which Schenley owns a 75% stock interest. These plants have an aggregate daily distilling capacity of approximately 241,000 proof gallons of whiskey or distilled spirits; facilities for bottling an aggregate of approximately 126,700 standard cases of product in an 8 hour day; and storage facilities for a total of approximately 3,909,600 barrels of aged and aging distilled spirits.

Schenley has 13 warehousing plants, some of which have distilling equipment, containing storage space for a total of approximately 1,495,000 barrels. In addition, Schenley has seven inactive plants, some of which have distilling equipment, containing storage space for a total of approximately 235,000 barrels.

The principal domestic whiskey distilleries are located at Lawrenceburg, Indiana; Frankfort and Louisville, Kentucky; Schenley, Pennsylvania; Tullahoma, Tennessee; and Fresno, California. In Canada, Schenley subsidiaries own distilleries at Valleyfield, Quebec and North Vancouver, British Columbia. Cooperage plants are located at Louisville, Kentucky and Monroe, Louisiana. Schenley has plants for the distillation of rum at Covington, Kentucky, and in Puerto Rico and the Virgin Islands. Schenley owns four plants for the production of wine and brandy in California and owns ranches for the production of grapes in that state.

Except for one of its warehousing plants, all of Schenley's distilleries and plants are owned in fee. The plants are generally of sound construction and adequately equipped for carrying on Schenley's business, and, except for the inactive plants referred to above, are in good operating condition.

The following table shows expenditures by Schenley for additions to its land, buildings and equipment during the five years ended August 31, 1967, and retirements during that period:

| | Property Additions | Property Retirements and Sales | Net Property Additions and Acquisitions |
|---|---|---|---|
| 1963 | $ 3,484,619 | $2,596,707 | $ 887,912 |
| 1964 | 3,725,078 | 712,936 | 3,012,142 |
| 1965 | 6,607,136 | 1,383,639 | 5,223,497 |
| 1966 | 4,366,874 | 2,029,927 | 2,336,947 |
| 1967 | 5,765,940 | 985,125 | 4,780,815 |
| Totals | $23,949,647 | $7,708,334 | $16,241,313 |

**Legal Proceedings—Schenley**

There is presently pending in the United States District Court for the Southern District of New York a civil antitrust suit filed on April 25, 1966 by the United States Department of Justice against Schenley Industries, Inc. and The Buckingham Corporation, asserting that Schenley's acquisition of shares of Buckingham's outstanding stock on August 31, 1964 was a violation of the Clayton Act. The suit seeks, in part, an order requiring Schenley to divest itself of its stock in Buckingham. Schenley has filed an answer denying the material allegations of the complaint and asserting in addition, the investment and other separate and complete defenses to the action.

Various legal proceedings are pending by and against Schenley or its subsidiaries involving miscellaneous causes of action arising from the business. Schenley does not consider that any pending litigation will result in recoveries against it in a material amount.

See "BACKGROUND OF TRANSACTION", with respect to litigation concerning the Exchange Offer and the sale to Glen Alden of shares of Schenley Common Stock by Lewis S. Rosenstiel and other related sellers.

**Officers and Directors—Schenley**

The names of the directors and executive officers of Schenley Industries, Inc. are as follows:

| Name | Office |
|---|---|
| Charles B. Buscher | Director & Vice-President |
| David A. Chernow | Director & Vice-President |
| Edgar R. Deutsche | Director & Vice-President |
| William E. Devereaux | Director & Vice-President |
| Howard S. Feldman | Director & Vice-President |
| Bernard Goldberg | Director & Senior Vice-President |
| Theodore Gommi | Director & Vice-President |
| Thomas J. Hanson | Treasurer |
| Milo B. Hopkins | Director |
| George D. Kuhn | Director |
| John Mackie | Director & President |
| J. Lincoln Morris | Director |
| Louis B. Nichols | Director & Executive Vice-President |
| Sylvan Oestreicher | Director |

| Name | Office |
|---|---|
| Lewis S. Rosenstiel | Director & Chairman of the Board |
| Milton B. Seasonwein | Secretary |
| Russell G. Smith | Director |
| Frank L. Sundstrom | Vice-President |
| Theo. C. Wiehe | Director & Vice-President |

All of the principal executive officers of Schenley Industries, Inc. have been actively engaged in the business of that company or its subsidiaries for more than the past 5 years except Mr. Buscher. Prior to his employment by the Company as a Vice-President in January 1967, Mr. Buscher had served since 1956 as Executive Director of the National Alcoholic Beverage Control Association.

*Stockholdings*—On June 30, 1968, there were 7,727,754 shares of Schenley Common Stock outstanding. "Associates" of Mr. Rosenstiel as defined in the rules and regulations under the Securities Act of 1933 owned an aggregate of 881,649 shares (11.41%), in which Mr. Rosenstiel disclaims any beneficial interest, including 7,214 shares held as Testamentary Trustee, 34,101 shares owned by his minor daughter, 807,145 shares owned by the Dorothy H. and Lewis Rosenstiel Foundation, a non-profit charitable foundation, and 18,363 shares owned by The Rosenstiel Foundation, also a non-profit charitable foundation. Other officers and directors of Schenley beneficially owned 172,108 shares of Common Stock. (With respect to the Schenley Common Stock owned by Glen Alden and related persons, see "BACKGROUND OF TRANSACTION".)

**Capital Stock—Schenley**

The authorized capital stock of Schenley consists of 20,000,000 shares of Common Stock, par value $.93⅓ per share, and 4,000,000 shares of Cumulative Preference Stock, par value $.35 per share. The following summary is qualified in its entirety by reference to the Certificate of Incorporation, as amended, of Schenley, copies of which are on file with the Securities and Exchange Commission, Washington, D. C.

*Dividends:* Before any dividends may be declared or paid upon, or any other distribution ordered or made in respect of, Schenley Common Stock, and before any shares of Common Stock may be purchased, redeemed, or otherwise acquired by Schenley, full cumulative dividends on the outstanding Cumulative Preference Stock at the prescribed rate must have been paid or declared and set apart for payment. Holders of the Cumulative Preference Stock are entitled to receive when, as and if declared by the Board of Directors, cumulative cash dividends at the annual rate of 50¢ per share, payable at such times, not less often than semi-annually, as determined from time to time by the Board of Directors.

Agreements with respect to Schenley's long-term debt provide, among other things, that Schenley may not pay dividends on or acquire any of its capital stock if, after giving effect to any payments for such purposes, the excess of consolidated current assets over consolidated current liabilities and long-term debt shall be less than certain specified amounts (See Note 5 to Notes to Consolidated Financial Statements of Schenley herein).

Subject to the foregoing, the Common Stock is entitled to such dividends as are from time to time declared by the Board of Directors.

*Voting Rights:* Holders of Schenley Common Stock are entitled to one vote for each share of such stock. Except as otherwise provided by the laws of Delaware, they exclusively possess voting power for the election of the directors and other purposes unless and until the equivalent of six or more quarterly dividends are in arrears on the Cumulative Preference Stock, in which event, and during the period of any such arrearage, the holders of Cumulative Preference Stock are entitled, voting as a class with one vote for each share held, to elect two directors. Schenley may not, without the consent of the holders of two-thirds of the outstanding shares of Cumulative Preference Stock, alter or

change the designations or the voting powers, preferences or rights, or the qualifications, limitations or restrictions of the Cumulative Preference Stock in any material respect prejudicial to the holders thereof, or create any new class of stock or security convertible into such stock having preference over the Cumulative Preference Stock as to dividends or assets.

*Non-Cumulative Voting:* Neither class of Schenley stock has cumulative voting rights. This means that the holders of more than 50% of the shares voting for the election of directors can elect all of the directors, or class of directors in certain events, if they choose to do so, and, in such event, the holders of the remaining less than 50% of the shares so voting will not be able to elect any person to the Board of Directors.

*Conversion Rights:* The holders of shares of Cumulative Preference Stock have the right to convert such shares into shares of Schenley Common Stock at any time on or before the close of business on December 31, 1969 (or, as to any share called for redemption prior thereto, up to the close of business on the third business day preceding the date fixed for redemption), each share of Preference Stock being taken at $10 for the purpose of such conversion, at prices of $46.66⅔ per Common share during calendar 1968 and $53.33⅓ per Common share during calendar 1969. To safeguard against dilution, the conversion prices are subject to adjustment in certain cases. No adjustments in respect of dividends are made upon conversion. No fractional shares of Common Stock are issued on conversion, but non-dividend-bearing and non-voting scrip certificates (exchangeable, pursuant to the provisions thereof, when combined with other such scrip certificates for a full share) may be issued or, at the option of Schenley, a cash adjustment based on market price on date of conversion may be made.

*Liquidation Rights:* In the event of liquidation, dissolution or winding up of Schenley, the holders of Cumulative Preference Stock are entitled to receive out of the assets available for distribution to its stockholders an amount equal to $10 per share together with an amount equal to cumulative dividends thereon to the date of final distribution, if any, before any distribution may be made to the holders of Common Stock. Holders of Common Stock are entitled to the then remaining assets in proportion to their share holdings. In the event the net assets of the Corporation shall be insufficient to pay the foregoing amounts to each holder of Cumulative Preference Stock, then each such holder shall share ratably in any distribution of assets to the extent available.

*Redemption:* Schenley Preference Stock may be redeemed in whole or in part by Schenley at any time or from time to time, on not less than 30 days' notice, at a redemption price of $10 per share together with an amount equal to full cumulative dividends to the date of redemption, if any. The Common Stock has no redemption provisions.

*General:* Neither class of Schenley stock is liable for further calls or subject to assessment. The holders of Common Stock have pre-emptive rights, except with respect to the purchase of shares of stock issuable under the Employees' Share Purchase Plan of Schenley or on conversion of Cumulative Preference Stock. There are no preemptive rights to subscribe for or purchase shares of the Cumulative Preference Stock.

Except for stock dividends or other distributions on a class of its stock, conversions, or exercise of stock options granted pursuant to a plan approved by the stockholders, Schenley may not issue, sell, transfer or otherwise dispose of any authorized but unissued shares, or any treasury shares, unless authorized by vote of the holders of a majority of the outstanding stock of the corporation having voting power.

## EXPERTS

The financial statements of Glen Alden Corporation and subsidiaries included herein, other than those which are unaudited or on a pro forma basis, and the supporting schedules included and incorporated by reference elsewhere in the Registration Statement, have been examined to the extent stated in the respective opinions of Haskins & Sells, Price Waterhouse & Co., S. D. Leidesdorf & Co., Ernst &

Ernst, Fred Landau & Co. (successor to Joseph Kantor & Company), Wasserman & Taten and Clarence Rainess & Co., independent public accountants, and have been so included herein in reliance upon the respective opinions of the above-mentioned firms given upon their authority as experts in accounting and auditing.

The consolidated financial statements and schedules of Schenley Industries, Inc. and subsidiaries included in this Prospectus and elsewhere in the Registration Statement, other than those which are unaudited, have been examined by Arthur Andersen & Co., independent public accountants, as set forth in their reports which appear elsewhere herein. In such reports, that firm states that with respect to certain subsidiaries its opinion is based on the reports of other auditors. The reports of such other auditors, Haskins & Sells, Peat, Marwick, Mitchell & Co. and Samson, Belair, Cote, Lacroix et Associes, who are independent public accountants, also appear herein. The financial statements and supporting schedules referred to above have been included in reliance upon the authority of such firms as experts in giving said reports.

## LEGAL OPINION

Legal matters in connection with the Debentures have been passed upon for Glen Alden by Messrs. Strasser, Spiegelberg, Fried & Frank, 120 Broadway, New York, N. Y. 10005. Messrs. Holtzmann, Wise & Shepard, 30 Broad Street, New York, N. Y. 10004, are acting as counsel to the Dealer Managers.

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## GLEN ALDEN AND SCHENLEY

The pro forma combined balance sheet set forth below is based upon the assumption that Glen Alden will acquire 100% of the outstanding Schenley Common Stock, and will vary if Glen Alden acquires a lesser percentage. For each 1% of outstanding Schenley Common Stock not obtained (exclusive of Glen Alden holdings) approximately $4,209,000 of 6% Sinking Fund Subordinated Debentures would not be issued and minority interest would be increased by approximately $3,083,000 together with commensurate adjustments in cash on hand, intangibles and deferred charges.

### PRO FORMA COMBINED BALANCE SHEET (Unaudited)
(In Thousands)

ASSETS

| | Glen Alden | | | | Schenley | Pro Forma | |
|---|---|---|---|---|---|---|---|
| | | Interim Transactions | | | | | |
| | March 31, 1968 | (Note 1) | (Note 2) | Total | May 31, 1968 | Adjustments (Note 3) | Combined |
| CURRENT ASSETS: | | | | | | | |
| Cash, certificates of deposit and short term securities | $ 27,719 | $(5,851) | $ 44,932 | $ 66,800 | $ 47,035 | $(54,719)(a) | $ 59,116 |
| Receivables, less allowances | 84,641 | — | (5,135) | 79,506 | 136,922 | — | 216,428 |
| Inventories | 120,484 | — | (4,098) | 116,386 | 333,320 | — | 449,706 |
| Prepaid expenses | 5,683 | — | (452) | 5,231 | — | — | 5,231 |
| TOTAL CURRENT ASSETS | 238,527 | (5,851) | 35,247 | 267,923 | 517,277 | (54,719) | 730,481 |
| INVESTMENTS: | | | | | | | |
| Schenley Industries, Inc. common stock, at cost | 80,610 | 5,851 | — | 86,461 | — | (86,461)(b) | — |
| Seager Evans & Co. Ltd., at equity | — | — | — | — | 18,166 | — | 18,166 |
| Briggs Manufacturing Company common stock (at cost, less reserve of $2,750,000) and notes | 3,208 | — | — | 3,208 | — | — | 3,208 |
| Certain foreign and affiliated companies and sundry | 3,239 | — | (1,868) | 1,371 | 2,884 | — | 4,255 |
| | 87,057 | $ 5,851 | (1,868) | 91,040 | 21,050 | (86,461) | 25,629 |
| PROPERTY, PLANT AND EQUIPMENT—net | 147,723 | — | (32,684) | 115,039 | 47,599 | — | 162,638 |
| OTHER ASSETS: | | | | | | | |
| Mortgage note receivable from Blue Coal Corporation | 3,020 | — | — | 3,020 | — | — | 3,020 |
| Intangibles, less amortization (Note 4) | 40,812 | — | (18,318) | 22,494 | — | 148,580 (b) | 171,074 |
| Goodwill, brands, trademarks | — | — | — | — | 18,609 | — | 18,609 |
| Deferred charges and prepaid expenses | 4,645 | — | — | 4,645 | 3,137 | 105,229 (a) | 113,011 |
| Mortgages and other notes receivable, deposits and sundry, less allowances | 15,900 | — | (46) | 15,854 | — | — | 15,854 |
| | 64,377 | — | (18,364) | 46,013 | 21,746 | 253,809 | 321,568 |
| TOTAL | $537,684 | — | $(17,669) | $520,015 | $607,672 | $112,629 | $1,240,316 |

NOTES:

1. Represents the purchase of 110,000 shares of Schenley Common Stock during April 1968 at an aggregate cost of $5,851,208 and the refinancing of $24,375,000 short term notes payable to banks.

2. Represents pro forma sales, as at March 31, 1968, of theatre properties in California, Texas and Tennessee and International Latex & Chemical Corporation, which sales occurred during April 1968. For the purposes of this pro forma combined balance sheet the excess of proceeds of sale over book value of properties and investments and related taxes has been credited to intangibles.

3. The adjustments column reflects the following:

(a) Issuance of cash ($54,719,000) and 6% Sinking Fund Subordinated Debentures ($420,914,000) in exchange for 6,313,714 shares of Schenley Common Stock, as constituted after the 3 for 2 split, and assuming

## GLEN ALDEN AND SCHENLEY

### PRO FORMA COMBINED BALANCE SHEET (Unaudited)
(In Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | Glen Alden | | | | Schenley | Pro Forma | |
|---|---|---|---|---|---|---|---|
| | March 31, 1968 | Interim Transactions (Note 1) | Interim Transactions (Note 2) | Total | May 31, 1968 | Adjustments (Note 3) | Combined |
| CURRENT LIABILITIES: | | | | | | | |
| Notes payable to banks | $134,419 | $(24,375) | — | $110,044 | $120,750 | — | $ 230,794 |
| Current portion of long-term debt | 10,880 | (250) | $ (693) | 9,937 | 3,500 | — | 13,437 |
| Accounts payable | 31,739 | — | (2,028) | 29,711 | 19,594 | — | 49,305 |
| Accrued liabilities | 23,284 | — | (1,036) | 22,248 | 14,549 | — | 36,797 |
| Sundry taxes, including Federal excise | — | — | — | — | 24,101 | — | 24,101 |
| Accrued Federal and foreign income taxes | 5,158 | — | 7,062 | 12,220 | 8,576 | — | 20,796 |
| Dividends payable | 1,389 | — | — | 1,389 | — | — | 1,389 |
| TOTAL CURRENT LIABILITIES | 206,869 | (24,625) | 3,305 | 185,549 | 191,070 | — | 376,619 |
| LONG-TERM DEBT, less current portion | 97,955 | $ 24,625 | (20,086) | 102,494 | 85,250 | $420,914(a) | 608,558 |
| SUNDRY NONCURRENT ITEMS, principally deferred taxes | 20,702 | — | (888) | 19,814 | 4,693 | — | 24,507 |
| MINORITY INTEREST IN SUBSIDIARIES | 582 | — | — | 582 | 18,374 | — | 18,956 |
| STOCKHOLDERS' EQUITY (Note 2): | | | | | | | |
| Preferred and preference stocks — aggregate redemption requirements ($219,341,117) | 27,310 | — | — | 27,310 | 187 | (187)(b) | 27,310 |
| Common stock | 15,024 | — | — | 15,024 | 8,716 | (8,716)(b) | 15,024 |
| Capital surplus | 101,284 | — | — | 101,284 | 59,465 | (59,465)(b) | 101,284 |
| Earned surplus | 84,262 | — | — | 84,262 | 274,620 | (274,620)(b) | 84,262 |
| Less treasury stock, at cost | (16,304) | — | — | (16,304) | (34,703) | 34,703 (b) | (16,304) |
| TOTAL STOCKHOLDERS' EQUITY | 211,576 | — | — | 211,576 | 308,285 | (308,285) | 211,576 |
| TOTAL | $537,684 | — | $(17,669) | $520,015 | $607,672 | $112,629 | $1,240,316 |

all outstanding shares of Schenley Cumulative Convertible Preference Stock are converted into Schenley Common Stock.

(b) Consolidation elimination of Glen Alden's investment in Schenley Common Stock.

4. Glen Alden does not have sufficient information at the present time to make an allocation of the excess of cost of investment in Schenley over equity in net assets (estimated to be $148,580,000, based upon May 31, 1968 consolidated balance sheet of Schenley). To the extent any amount is allocated (a) to property, plant and equipment, it will be written off over the estimated remaining lives of such assets and (b) to intangibles, it may or may not be amortized depending on whether any diminution in value is anticipated.

5. The above pro forma combined balance sheet should be read in conjunction with the financial statements and related notes thereto of Glen Alden and Schenley appearing elsewhere herein.

6. No provision has been made for expenses incident to the Exchange Offer as such expenses are not expected to be significant in relation to the pro forma combined balance sheet nor for stock options and commitments to issue shares of stock of Glen Alden and stock options of Schenley. No adjustment has been made for the assumed refinancing of short term notes payable to banks with proceeds of a term loan commitment presently being negotiated. See note (c) to "Capitalization Table" elsewhere herein.

7. The pro forma initial redemption and liquidation prices of the Glen Alden preferred stocks at March 31, 1968, in the aggregate ($219,341,117) exceed their stated values by $192,031,531, and such excess exceeds the aggregate amount of Common Stock and surplus by approximately $7,765,195. Upon liquidation the Senior Stock is first in order of preference, followed by the Class B Senior Stock. The Preferred Stock and Class C Stock are junior to the Class B Senior Stock, but rank on a parity with each other. There are no restrictions upon surplus arising out of such excess.

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

GLEN ALDEN CORPORATION:

We have examined the financial statements as of December 31, 1967 and for the two years then ended of Glen Alden Corporation and its subsidiaries except The B.V.D. Company, Inc. and its consolidated subsidiaries and Stanley Warner Division (formerly Stanley Warner Corporation and subsidiary companies). We have also examined the financial statements of The Philip Carey Manufacturing Company and subsidiary companies for the three years ended December 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished the report of S. D. Leidesdorf & Co. on their examination of the financial statements of The B.V.D. Company, Inc. and its consolidated subsidiaries and the report of Price Waterhouse & Co. on their examination of the financial statements of Stanley Warner Division. The combined total assets and revenues of The B.V.D. Company, Inc. and its consolidated subsidiaries and Stanley Warner Division and its subsidiaries constitute substantial portions of the respective consolidated totals.

In our opinion, which insofar as it relates to amounts included for The B.V.D. Company, Inc. and its consolidated subsidiaries and Stanley Warner Division is based solely on the reports of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income, capital stock, and surplus, with their notes, present fairly the financial position of the companies at December 31, 1967 and the results of their operations for the stated years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Further, we have checked the compilation of the accompanying statement of consolidated income of Glen Alden Corporation and subsidiaries for the three years ended December 31, 1965 and statements of consolidated surplus for the year then ended, presenting the consolidation of amounts derived from the financial statements of The Philip Carey Manufacturing Company and subsidiary companies examined by us with those of Glen Alden Corporation and subsidiaries (other than The Philip Carey Manufacturing Company) examined by other accountants, and in our opinion, such consolidated financial statements have been properly compiled on the basis therein set forth.

HASKINS & SELLS

New York, N. Y.
April 2, 1968 (except as to information in Note 1 to Statement of Consolidated Income which is as of April 30, 1968).

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To the Board of Directors of
GLEN ALDEN CORPORATION

In our opinion, the financial statements (not presented separately herein) of the Stanley Warner Division of Glen Alden Corporation (until December 22, 1967 Stanley Warner Corporation and subsidiary companies) present fairly their financial position at December 31, 1967 and the results of their operations for the five years ended August 26, 1967 and for the period August 27, 1967 through December 31, 1967, in conformity with generally accepted accounting principles consistently applied. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

New York, New York
February 29, 1968 (except for Note 1 to Statement of Consolidated Income as to which the date is April 30, 1968)

To the Board of Directors
THE B.V.D. COMPANY, INC.
New York, N. Y.

We have examined the consolidated balance sheet of The B.V.D. Company, Inc. and consolidated subsidiaries ("Company") as at December 30, 1967, the related consolidated statements of income of The B.V.D. Company, Inc. and its subsidiaries (predecessor corporation) for the four years ended April 1, 1967, and of the Company for the nine months ended December 30, 1967 (eleven months as to retail subsidiaries), and of surplus for the two years ended April 1, 1967 of the predecessor corporation and of the Company for the nine months ended December 30, 1967 (eleven months as to retail subsidiaries). Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As to some companies and entities whose financial statements for certain periods were not examined by us, we were furnished with reports by other certified public accountants as follows: United Mills Corporation and its subsidiary, consolidated financial statements for the period from January 1, 1964 to March 31, 1964, and United Mills, a division of a consolidated subsidiary and United Mills Realty Company, Inc., consolidated financial statements as at and for the three years ended April 1, 1967—Wasserman & Taten; Fordham-Bardell Shirt Corp. and its subsidiaries, consolidated financial statements as at and for the four years ended April 1, 1967—Joseph Kantor & Company; Almar Rainwear Corporation and subsidiary, consolidated financial statements for the two years ended June 30, 1965—Clarence Rainess & Co. Our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries and entities, is based solely upon such reports. With respect to the opening balances entering into the determination of net income for the nine months ended December 30, 1967 of Fordham-Bardell Shirt Corp. and its subsidiaries; United Mills, a division of a consolidated subsidiary, and United Mills Realty Company, Inc., we have relied upon the reports of the aforementioned certified public accountants on their examination of the financial statements of such subsidiaries and entities for the preceding year.

In our opinion, based upon our examinations and the reports of other certified public accountants referred to above, the consolidated financial statements mentioned in the first paragraph hereof (not presented separately herein), present fairly the consolidated financial position of The B.V.D. Company, Inc. and consolidated subsidiaries at December 30, 1967, and the consolidated results of operations of the predecessor corporation for the four years ended April 1, 1967 and of the Company for the nine months ended December 30, 1967 (eleven months as to retail subsidiaries), in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes in the nine months ended December 30, 1967 (eleven months as to retail subsidiaries), which we approve. Had these changes not been made, net income for the nine months ended December 30, 1967 would have been approximately $260,000 greater.

S. D. LEIDESDORF & CO.

New York, N. Y.
February 28, 1968

To the Board of Directors of
GLEN ALDEN CORPORATION

We have examined the statements of consolidated income of Glen Alden Corporation (a Pennsylvania corporation) and subsidiaries for the three years ended December 31, 1965, and the related statement of consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements (not separately presented herein) present fairly the consolidated results of operations of Glen Alden Corporation and subsidiaries for the three years ended December 31, 1965, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST

New York, New York
March 4, 1966

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To the Board of Directors of the
Fordham-Bardell Shirt Corp.

We have examined the consolidated balance sheet of the Fordham-Bardell Shirt Corp. and its subsidiary companies as at April 1, 1967, the related consolidated statement of income for the four years then ended, and of surplus for the two years then ended (neither of such statements being included separately herein). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements, together with their notes, present fairly the consolidated financial position of the Fordham-Bardell Shirt Corp. and its subsidiary companies at April 1, 1967, and the consolidated results of their operations for the four years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

FRED LANDAU & CO. (Successor to
JOSEPH KANTOR & COMPANY)

New York, New York
July 11, 1967

To the Boards of Directors
United Mills Corporation and
United Mills, Division of Flexees
International, Inc. and its wholly
owned subsidiary, United Mills Realty
Company, Inc.
Mt. Gilead, North Carolina

We have examined the following consolidated financial statements (not presented separately herein):

(a) United Mills Division of Flexees International, Inc. and its wholly owned subsidiary, United Mills Realty Company, Inc.—statements of financial condition as at April 1, 1967, and of operations and divisional equity for the fiscal years ended April 3, 1965, April 2, 1966 and April 1, 1967,

(b) United Mills Corporation and its subsidiary—statement of income and surplus for the period from January 1, 1964 to March 31, 1964.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned statements present fairly the consolidated financial position of United Mills Division of Flexees International, Inc. and its wholly owned subsidiary United Mills Realty Company, Inc. at April 1, 1967, and the consolidated results of their operations and the operations of United Mills Corporation and its subsidiary for the periods shown above, in conformity with generally accepted accounting principles applied on a consistent basis.

WASSERMAN & TATEN

New York, N. Y.
May 23, 1967

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To the Board of Directors
Almar Rainwear Corporation

We have examined the consolidated statements of income of Almar Rainwear Corporation and subsidiary for the two years ended June 30, 1965 and the related consolidated statement of retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated statements (not separately presented herein) present fairly the results of operations of Almar Rainwear Corporation and subsidiary for the two years ended June 30, 1965, in conformity with generally accepted accounting principles consistently applied.

CLARENCE RAINESS & CO.

New York, New York
August 13, 1965 (except for Note
B(1) for which the date is February 10, 1966)

A1239

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1967 and (Unaudited) March 31, 1968

### ASSETS

| | December 31, 1967 | March 31, 1968 (Unaudited) |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash, including bank certificates of deposit ($9,120,396 and $5,000,000 at December 31, 1967 and March 31, 1968, respectively) | $ 47,313,536 | $ 27,679,437 |
| Marketable securities, at cost which approximates market | 6,949,897 | 39,445 |
| Trade accounts receivable, less allowances ($2,132,543 and $2,074,267 at December 31, 1967 and March 31, 1968, respectively) | 66,879,419 | 72,206,525 |
| Mortgage and other notes and accounts receivable | 14,560,122 | 12,435,047 |
| Inventories, at the lower of cost or market (Note B) | 110,156,236 | 120,483,691 |
| Prepaid expenses | 4,622,342 | 5,682,751 |
| Total current assets | 250,481,552 | 238,526,896 |
| **INVESTMENTS:** | | |
| Schenley Industries, Inc., common stock (at cost) | | 80,610,080 |
| Briggs Manufacturing Company, common stock (at cost, less reserve of $2,750,000) and notes | 3,208,244 | 3,208,244 |
| Certain foreign subsidiaries (at cost), and affiliates (at equity) (Note A) | 3,005,380 | 3,239,079 |
| Total investments | 6,213,624 | 87,057,403 |
| **PROPERTY, PLANT AND EQUIPMENT, AT COST (Note C):** | | |
| Land | 33,590,935 | 33,168,326 |
| Buildings | 92,075,304 | 88,170,327 |
| Machinery, equipment, furniture and fixtures | 128,122,783 | 124,647,897 |
| Construction funds held by trustees | 13,491,773 | 12,524,124 |
| Other | 31,430,970 | 39,005,509 |
| | 298,711,765 | 297,516,183 |
| Less accumulated depreciation and amortization | 150,856,856 | 149,793,023 |
| Property, plant and equipment—net | 147,854,909 | 147,723,160 |
| **OTHER ASSETS:** | | |
| Mortgage note receivable from Blue Coal Corporation | 3,296,868 | 3,019,499 |
| Intangibles, less amortization (Note D) | 40,961,719 | 40,812,186 |
| Deferred charges | 4,062,751 | 4,644,627 |
| Mortgage and other notes receivable, deposits and sundry, less allowance and unearned discount ($1,999,952 and $1,848,975 at December 31, 1967 and March 31, 1968, respectively) | 16,782,254 | 15,900,319 |
| Total other assets | 65,103,592 | 64,376,631 |
| | $469,653,677 | $537,684,090 |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### December 31, 1967 and (Unaudited) March 31, 1968

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 31, 1967 | March 31, 1968 (Unaudited) |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable to banks | $ 68,346,324 | $134,419,376 |
| Current portion of long-term debt (Note E) | 9,388,444 | 10,880,291 |
| Accounts payable | 28,409,384 | 31,739,628 |
| Accrued liabilities: | | |
| Salaries, wages, commissions and bonuses | 4,975,837 | 6,193,515 |
| Miscellaneous taxes withheld and accrued | 6,128,275 | 5,298,933 |
| Other | 11,476,122 | 11,791,304 |
| Accrued Federal and foreign income taxes (Note F) | 6,442,009 | 5,157,463 |
| Dividends payable | | 1,388,407 |
| Total current liabilities | 135,166,395 | 206,868,917 |
| LONG-TERM DEBT, less current portion (Note E) | 101,662,831 | 97,955,178 |
| SUNDRY NONCURRENT ITEMS, including deferred taxes of $6,797,696 and $6,480,055 at December 31, 1967 and March 31, 1968, respectively (Note F) | 16,402,186 | 20,701,980 |
| MINORITY INTEREST IN SUBSIDIARIES | 588,842 | 582,093 |
| STOCKHOLDERS' EQUITY (see accompanying statements): | | |
| Preferred and preference stocks—aggregate redemption requirements ($346,544,688 and $219,341,117 at December 31, 1967 and March 31, 1968, respectively) (Notes G and H) | 50,975,956 | 27,309,586 |
| Common stock, par value $1 per share; authorized—36,000,000 shares; issued — December 31, 1967 — 6,808,797 shares; March 31, 1968—15,024,494 shares (Note H) | 6,808,797 | 15,024,494 |
| Capital surplus | 87,572,771 | 101,284,240 |
| Earned surplus (Note E) | 86,813,639 | 84,261,832 |
| | 232,171,163 | 227,880,152 |
| Less cost of common shares of treasury stock (December 31, 1967 — 1,316,586 shares; March 31, 1968 — 1,313,836 shares) | 16,337,740 | 16,304,230 |
| Total stockholders' equity | 215,833,423 | 211,575,922 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes I, J and K) | | |
| | $469,653,677 | $537,684,090 |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED CAPITAL STOCK

**For the Year Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968**

| | Stated Value | | | | | |
|---|---|---|---|---|---|---|
| | $2.25 Senior Cumulative Convertible Preferred | Class B Senior Cumulative Convertible ($3) Preferred | $3.15 Cumulative Convertible Preferred | Class C (Contingent Preference) | Par Value of Issued Common Stock | Common Stock in Treasury, at Cost |
| Balance, January 1, 1967 as previously reported | — | — | — | — | $6,124,986 | $(16,430,043) |
| Restatement (Note A) | $724,405 | $1,629,174 | $33,413,438 | $11,975,619 | — | — |
| Balance, January 1, as restated | 724,405 | 1,629,174 | 33,413,438 | 11,975,619 | 6,124,986 | (16,430,043) |
| Add (Deduct): | | | | | | |
| Transactions of pooled companies | — | 40,824 | 1,105,928 | — | — | — |
| Conversion of debt and preferred stock | (195,376) | — | 2,100,450 | — | 683,811 | — |
| Exercise of stock options | — | — | 181,494 | — | — | 20,929 |
| Other | — | — | — | — | — | 71,374 |
| Balance, December 31, 1967 | 529,029 | 1,669,998 | 36,801,310 | 11,975,619 | 6,808,797 | (16,337,740) |
| Add (Deduct): | | | | | | |
| Conversion of debt and preferred stock | (34,516) | (539,864) | (20,968,168) | — | 8,215,697 | — |
| Exercise of stock options | — | 3,148 | 228,901 | — | — | 33,510 |
| Redemption of stock | — | — | — | (2,355,871) | — | — |
| Balance, March 31, 1968 | $494,513 | $1,133,282 | $16,062,043 | $ 9,619,748 | $15,024,494 | $(16,304,230) |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED CAPITAL SURPLUS

**For the Three Years Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968**

| | Year Ended December 31, | | | Three Months Ended March 31, 1968 |
|---|---|---|---|---|
| | 1965 | 1966 | 1967 | (Unaudited) |
| Balance at beginning of period | $67,244,771 | $89,144,731 | $89,399,742 | $ 87,572,771 |
| Add: | | | | |
| Adjustments relating to poolings of interests (Note A): | | | | |
| Capital surplus of companies pooled during 1967: | | | | |
| The Philip Carey Manufacturing Company (net of purchased 28% interest) | 4,708,506 | — | — | — |
| The B.V.D. Company, Inc. | 11,047,444 | — | — | — |
| Stanley Warner Corporation (net of purchased 28% interest) | 10,284,057 | — | — | — |
| Excess of par value of common shares of The Philip Carey Manufacturing Company over stated value of $2.25 Senior Cumulative Convertible Preferred Stock issued in exchange therefor | 6,519,645 | — | — | — |
| Excess of par value of common shares of Stanley Warner Corporation over stated value of Class B Senior Cumulative Convertible ($3) Preferred Stock issued in exchange therefor | 5,776,161 | — | — | — |
| Excess of stated value of $3.15 Cumulative Convertible Preferred Stock converted over par value of common shares issued therefor | — | — | — | 16,613,424 |
| Excess of face amount of debentures converted over stated value of $3.15 Cumulative Convertible Preferred Stock issued therefor | — | — | 2,983,550 | 244,158 |
| Capital surplus credit arising from issuance of Common Stock | 366,589 | 6,191,454 | 1,429,000 | 154,256 |
| | 38,702,402 | 6,191,454 | 4,412,550 | 17,011,838 |
| Deduct: | | | | |
| Transfer to stated value of stocks issued during 1967 in connection with poolings of interests: | | | | |
| $3.15 Cumulative Convertible Preferred Stock | 8,381,528 | 4,371,746 | 1,059,629 | — |
| Class C (Contingent Preference) Stock | 2,999,844 | 1,564,697 | — | — |
| Excess of cost over par value of treasury stock purchased and/or retired | 5,421,070 | — | — | — |
| Costs incident to poolings of interests | — | — | 4,691,457 | — |
| Excess of par value of common shares issued over stated value of shares converted: | | | | |
| $2.25 Senior Cumulative Convertible Preferred Stock | — | — | 488,435 | 61,185 |
| Class B Senior Cumulative Convertible ($3) Preferred Stock | — | — | — | 3,239,184 |
| | 16,802,442 | 5,936,443 | 6,239,521 | 3,300,369 |
| Balance at end of period | $89,144,731 | $89,399,742 | $87,572,771 | $101,284,240 |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED EARNED SURPLUS

**For the Three Years Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968**

| | Year Ended December 31, 1965 | 1966 | 1967 | Three Months Ended March 31, 1968 (Unaudited) |
|---|---|---|---|---|
| Balance at beginning of period | $18,849,574 | $70,426,006 | $75,659,059 | $86,813,639 |
| Add: | | | | |
| Adjustments relating to poolings of interests (Note A): | | | | |
| Earned surplus of companies pooled during 1967: | | | | |
| The Philip Carey Manufacturing Company (net of purchased 28% interest) | 15,519,254 | — | — | — |
| The B.V.D. Company, Inc. | 14,167,976 | — | — | — |
| Stanley Warner Corporation (net of purchased 28% interest) | 35,179,009 | — | — | — |
| Net income | 15,947,524 | 18,613,276 | 17,611,452 | 5,349,090 |
| Equity in net income of Stanley Warner and subsidiaries for the period August 27, 1967 through December 31, 1967 | — | — | 2,494,577 | — |
| Other | 43,478 | 186,046 | 461,124 | — |
| | 80,857,241 | 18,799,322 | 20,567,153 | 5,349,090 |
| Deduct: | | | | |
| Transfer to stated value of stocks issued during 1967 in connection with poolings of interests: | | | | |
| $3.15 Cumulative Convertible Preferred Stock | 14,703,020 | 3,192,152 | — | — |
| Class C (Contingent Preference) Stock | 5,262,377 | 1,142,507 | — | — |
| Glen Alden cash dividends: | | | | |
| $2.25 Senior Cumulative Convertible Preferred Stock (per share, $1.7168 and $1.125, respectively) | — | — | 1,053,143 | 580,357 |
| Class B Senior Cumulative Convertible ($3) Preferred Stock (per share $1.0788) | — | — | — | 1,194,813 |
| $3.15 Cumulative Convertible Preferred Stock (per share, $1.4952 and $1.575, respectively) | — | — | 1,451,452 | 1,127,428 |
| Common stock (per share—$.70, $.65, $.525 and $.175, respectively) | 3,364,032 | 3,125,076 | 2,702,004 | 1,359,115 |
| Cash dividends of pooled companies | 3,951,380 | 4,206,534 | 4,205,974 | — |
| Excess of redemption price over stated value of 67,027 shares of Class C (Contingent Preference) Stock | — | — | — | 3,639,184 |
| Appropriation for revaluation of investment in Briggs Manufacturing Company to approximate market | 2,000,000 | — | — | — |
| Provision for prior years' Federal income taxes (Note F) | — | 1,900,000 | — | — |
| | 29,280,809 | 13,566,269 | 9,412,573 | 7,900,897 |
| Balance at end of period (Note E) | $70,4[illegible],006 | $75,659,059 | $86,813,639 | $84,261,832 |

See Notes to Financial Statements.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

## For the Three Years Ended December 31, 1967

## and (Unaudited) Three Months Ended March 31, 1968

### A. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries except certain foreign subsidiaries whose assets and operations are not significant. Operations of affiliated companies, which are carried on an equity basis, are not significant.

During the year 1967 Glen Alden acquired The B.V.D. Company, Inc., The Philip Carey Manufacturing Company, and Stanley Warner Corporation. These acquisitions, except for purchased interests in Philip Carey and Stanley Warner, have been accounted for as poolings of interests and retroactive effect has been given to these transactions in the accompanying consolidated financial statements.

As of December 31, 1967 and March 31, 1968 Glen Alden's carrying amount of the investments in consolidated subsidiaries was $37,103,045 and $37,047,790, respectively, in excess of Glen Alden's equity in the net assets of such subsidiaries at dates of acquisition, as shown by their books. Such excess has been charged to intangibles in the accompanying consolidated balance sheet.

Included in the accompanying consolidated balance sheet are the following net assets, principally located in Canada and Europe:

| | December 31, 1967 | March 31, 1968 |
|---|---|---|
| Current Assets | $26,263,474 | $25,274,883 |
| Property, Plant and Equipment—Net | 14,058,295 | 13,685,572 |
| Other Assets | 1,081,482 | 705,805 |
| Total Assets | 41,403,251 | 39,666,260 |
| Current Liabilities | 9,200,271 | 8,640,588 |
| Long Term Debt, Less Current Portion | 1,086,568 | 1,066,176 |
| Sundry Non-Current Items, Principally Deferred Taxes | 2,766,268 | 2,248,235 |
| Total Liabilities | 13,053,107 | 11,954,999 |
| Net Assets | $28,350,144 | $27,711,261 |

The minority interest in the accompanying consolidated balance sheet consists of the following:

| | December 31, 1967 | March 31, 1968 |
|---|---|---|
| Capital Stock | $204,185 | $204,185 |
| Capital Surplus | 113,210 | 113,210 |
| Earned Surplus | 271,447 | 264,698 |
| Total | $588,842 | $582,093 |

### B. Inventories

Inventories, at lower of cost or market consist of the following as of December 31, 1967:

| Cost Method | Total | Finished Goods | Work in Process | Raw Materials and Supplies |
|---|---|---|---|---|
| Last-in, first-out | $ 4,574,133 | $ 1,913,533 | $ 1,762,231 | $ 898,369 |
| First-in, first-out or average | 53,80[illegible],711 | 23,665,630 | 12,627,800 | 17,514,281 |
| Standard, with percentage adjustments to approximate actual costs | 42,893,170 | 23,076,720 | 7,203,499 | 12,612,951 |
| Retail method | 8,881,222 | 8,881,222 | — | — |
| Total | $110,156,236 | $57,537,105 | $21,593,530 | $31,025,601 |

Complete physical inventories were not taken by all of the companies at March 31, 1968. The inventories of those companies which took physical inventories have been priced principally on the first-in, first-out or average cost

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967

### and (Unaudited) Three Months Ended March 31, 1968

methods. The inventories of the other companies at March 31, 1968 have been computed principally (1) by adding to the inventories at the beginning of the year, purchases, direct labor and overhead (to the extent applicable) and deducting therefrom estimated cost of goods sold based on the gross profit percentage method and (2) on standard costs, with percentage adjustments to approximate actual costs. It is not practicable to classify inventories which aggregated $120,483,691 at March 31, 1968.

Inventories used in computing cost of goods sold in the applicable periods were as follows:

| | |
|---|---|
| 1964 | $ 71,858,658* |
| 1965 | 93,610,675* |
| 1966 | 119,162,244 |
| 1967 | 110,156,236 |
| March 31, 1968 | 120,483,691 |

* Excludes inventories relating to the coal business which was sold effective January 1, 1966:

| | |
|---|---|
| 1964 | $ 1,840,023 |
| 1965 | 1,474,202 |

C. Property, Plant and Equipment

Depreciation and amortization are provided for either by the straight-line, sum-of-the-years-digits or the declining balance methods. The annual rates used are generally as follows:

| | |
|---|---|
| Buildings | 2% to 20% |
| Machinery and equipment | 2% to 50% |
| Furniture and fixtures | 3⅓% to 50% |

Leasehold improvements and buildings on leased land are amortized over term of lease or estimated useful life of the asset, whichever is the shorter period. Depletion is charged to operations based on usage and estimated fibre deposit reserves. Cost of mine development is amortized by charges to operations based on an estimated useful life of eighty months.

Maintenance and repairs are charged to income, as incurred. Renewals and betterments which extend the lives of the assets are capitalized. Generally, at the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

Property, plant and equipment and accumulated depreciation and amortization of certain pooled companies have been increased by approximately $45,000,000 during 1967 for fully depreciated assets still in use but previously reported net.

D. Intangibles.

Intangibles of $37,392,039 at December 31, 1967 and March 31, 1968 represent the excess of cost of investments over equity in net assets from purchased interests in Stanley Warner ($34,633,729), Philip Carey ($627,499), and in another subsidiary ($2,130,811). These excess acquisition costs have been recognized by the Management of Glen Alden as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at the respective dates of acquisition, the Management of Glen Alden adopted the policy of not amortizing these excess purchase costs so long as there is no diminution in value of the related investments.

Other intangibles are being amortized over periods not exceeding twenty years.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967

### and (Unaudited) Three Months Ended March 31, 1968

E. LONG-TERM DEBT AND CAPITALIZED LEASES.

Long-term debt at December 31, 1967 and March 31, 1968 with maturities due within one year consisted of the following:

| | December 31, 1967 | | March 31, 1968 | |
|---|---|---|---|---|
| | Current Portion | Long-Term Debt | Current Portion | Long-Term Debt |
| 4⅞% Mortgage and Collateral Trust Sinking Fund Notes, due $625,000 annually through 1978 and balance in 1979 | | $ 7,000,000 | $ 625,000 | $ 6,375,000 |
| 6% Subordinated Sinking Fund Debentures, sinking fund requirement $705,486 on each June 30 through 1970 | $ 669,505 | 1,429,716 | 670,000 | 1,410,971 |
| 5⅞% Notes, due $750,000 annually through 1973 and the balance in 1974 | 750,000 | 4,750,000 | 750,000 | 4,750,000 |
| 3⅞% Notes, due $575,000 annually through 1971 and the balance in 1972 | 575,000 | 3,100,000 | 575,000 | 3,100,000 |
| 90-day Promissory Notes, payable to banks under revolving credit agreement at the rate of $1,000,000 per quarter with balance due July 31, 1969 (interest ¼% above prime rate) | 4,000,000 | 17,000,000 | 4,000,000 | 16,000,000 |
| 5¼% Promissory Note, due $335,000 annually through 1977 and the balance in 1978 | 335,000 | 3,995,000 | 335,000 | 3,660,000 |
| 6% Subordinated Promissory Notes, due January 31, 1970 | | 9,000,000 | | 9,000,000 |
| 20-Year Five Per Cent Subordinated Convertible Debentures, Series A and B, due September 30, 1986, (convertible into $3.15 Cumulative Convertible Prefererd Stock at rate of $89.16 per share subject to antidilution provisions) | | 2,216,000 | | 1,800,000 |
| Notes payable to banks, due in quarterly installments of $875,000 beginning October 1, 1968 to October 1, 1971 when balance is due (interest at ⅜% above prime rate—minimum 4¼%, maximum 5¼%) | 875,000 | 24,750,000 | 1,750,000 | 23,875,000 |
| 5% and 5¼% Industrial Revenue Bonds, due in annual installments of approximately $600,000 (which includes principal and interest) from 1969 to 1987 | | 7,000,000 | 215,000 | 6,785,000 |
| 6½% Industrial Revenue Bonds, due in annual installments of approximately $940,000 (which includes principal and interest) from 1971 to 1992 | | 11,200,000 | | 11,200,000 |
| 2% to 7% sundry indebtedness consisting principally of mortgage and other notes, due 1968 to 1987 | 2,183,939 | 10,222,115 | 1,960,291 | 9,999,207 |
| Total | $9,388,444 | $101,662,831 | $10,880,291 | $97,955,178 |

The aggregate of long-term debt maturing during the five years ending March 31, 1973 is approximately as follows: March 31, 1969, $10,880,291 (included in current liabilities); 1970, $32,744,213; 1971, $7,850,192; 1972, $20,444,058; and 1973, $4,327,269.

The agreement relating to the notes payable to banks ($25,625,000) contains a provision which requires the consent of the lenders to certain events including the merger of Stanley Warner into Glen Alden on December 22, 1967. Although no such consent was obtained, no notice of default had been given and the term loan was paid in July, 1968.

Three chemical plants and a warehouse are being constructed and are being financed with the proceeds of two local government agencies' revenue bond issues aggregating $18,200,000. A subsidiary has signed long-term leases covering these facilities which include purchase options and, in accordance with current accounting practice, the properties and the lease-purchase obligations have been included in the balance sheet at December 31, 1967 and March 31, 1968. See "Recent Transactions" elsewhere herein for sale in April 1968 of Glen Alden's Chemical Division.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968

Agreements covering certain indebtedness of Glen Alden and its subsidiaries contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of cash dividends, restrictions on transactions in capital stock, etc. At December 31, 1967 approximately $45,000,000 of consolidated earned surplus was available for the payment of dividends.

See notes (a) and (b) to "Capitalization Table" elsewhere herein for the creation in July 1968 of certain long-term obligations and additional limitations on the availability of consolidated earned surplus.

F. Income Taxes and Related Charge

See Note 2 to the statement of consolidated income of Glen Alden included elsewhere herein.

G. Preferred and Preference Stocks

Preferred stocks, without par value, listed in the order of their preference are as follows at December 31, 1967 and March 31, 1968:

| Class of Stock | Shares Authorized | Shares Outstanding | Stated Value | Conversion Rate | Common Shares Reserved |
|---|---|---|---|---|---|
| At December 31, 1967: | | | | | |
| $2.25 Senior Cumulative Convertible | 724,405 | 529,029 | $ 529,029 | 3.5 to 1 | 1,851,602 |
| Class B Senior Cumulative Convertible ($3) | 2,200,000 | 1,669,998 | 1,669,998 | 7 to 1 | 11,689,986 |
| $3.15 Cumulative Convertible | 1,300,000 | 999,046 | 36,801,310 | 7.65 to 1 | 7,642,702 |
| Class C (Contingent Preference) | 335,398 | 335,398 | 11,975,619 | see below | 2,609,011 |
| Total | | | $50,975,956 | | 23,793,301 |
| At March 31, 1968: | | | | | |
| $2.25 Senior Cumulative Convertible | 724,405 | 494,513 | $ 494,513 | 3.5 to 1 | 1,730,796 |
| Class B Senior Cumulative Convertible ($3) | 2,200,000 | 1,133,282 | 1,133,282 | 7 to 1 | 7,932,974 |
| $3.15 Cumulative Convertible | 1,300,000 | 436,042 | 16,062,043 | 7.65 to 1 | 3,335,721 |
| Class C (Contingent Preference) | 335,398 | 268,371 | 9,619,748 | see below | 2,005,770 |
| Total | | | $27,309,586 | | 15,005,261 |

The first three preferred stocks listed above are entitled to cumulative dividends at annual rates of $2.25, $3.00 and $3.15, respectively, are entitled to various preferences in connection with redemptions and liquidations, and the $2.25 Senior Stock is entitled to a sinking fund commencing July 1, 1972.

Until the occurrence of certain events which make dividends cumulative, the holders of Class C Stock are entitled to dividends only when and if declared and then at no greater than $3.15 per share each year. The Class C Stock consists of seven series with "Serial Redemption Dates" on the last day of February in each of the years 1968 through 1974. The shares of each such series are redeemable on or after the 30th day prior to the Serial Redemption Date for that series, and after June 30, 1973 all such shares are redeemable without regard to series at $90 per share plus any accrued cumulative dividends. On liquidation, the Class C stockholders are entitled to receive $90 per share plus any accrued cumulative dividends. If Glen Alden fails to redeem all (or certain specified minimums) of the shares of Class C Stock, the holders of such stock are entitled to certain additional benefits including the right to convert such stock into common stock, the right to cumulative dividends (under certain circumstances at an annual rate of $6.30 per share), and the right to a sinking fund.

The initial redemption prices of the preferred stocks in the aggregate ($346,544,688 and $219,341,117 at December 31, 1967 and March 31, 1968, respectively) exceed their stated values by $295,568,732 and $192,031,531, respectively; such excess is greater than the aggregate amount of common stock and surplus by $130,711,265 and $7,765,195, respectively. There are no restrictions upon surplus resulting from such excesses.

During February 1968, Glen Alden redeemed 67,027 shares of Series 1 of the Class C Stock (considered convertible into 603,243 shares of common stock in the table above) which constitutes the entire number of shares in this series at $90 per share (aggregate $6,032,430).

1,457,527 shares of preferred stocks were converted into an aggregate of 10,344,514 shares of common stock during the period January through June 1968.

H. Stock Option Plans

In 1962 Glen Alden adopted a Stock Option Plan (which was amended May 15, 1964) under which 150,000 common shares were reserved for the granting of options to employees (including officers) to purchase common shares at not less than 95% (amended to 100%) of the fair market value at the time the option is granted. Options granted under the Plan become exercisable (and terminate if not exercised within two months of becoming exercisable) ratably over a period of six years (amended to five years) beginning one year from the date of granting and expire seven years (amended to five years) after the date of granting or sooner in the event of death or other termination of employment.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968

In 1965, Glen Alden adopted a Qualified Stock Option Plan under which 250,000 common shares were reserved for the granting of options to officers, other executives and key employees to purchase common shares at not less than fair market value at the time an option is granted. Options under the Plan become exercisable ratably over a period of not less than approximately three years and expire not more than five years after the date of granting or sooner in the event of death or the termination of employment. The Board of Directors on March 27, 1968 amended the Plan, subject to approval of the stockholders, to increase the maximum number of shares which may be optioned to 850,000 shares.

Of the number of shares reserved for stock options under the 1965 Plan, there were 77,000 and 677,000 shares available for granting of additional options as of December 31, 1967 and March 31, 1968, respectively. There are no further options issuable under the 1962 Stock Option Plan.

As part of the poolings of interests with The B.V.D. Company, Inc. and Stanley Warner Corporation, the Company has granted options to purchase shares of its $3.15 Cumulative Convertible Preferred Stock and Class B Senior Cumulative Convertible ($3) Preferred Stock as substitutes for stock options held by employees of those companies. The Substitute Stock Options were granted for the number of shares of Glen Alden's stock which generally would have been issued in respect of the optioned shares of such companies had they been outstanding at the dates of the poolings of interests.

A summary of the options which became exercisable and which were exercised during the three years ended December 31, 1967 and the three months ended March 31, 1968 and the shares under option at March 31, 1968 is as follows:

| | Number of Shares | Option Price Range Per Share | Option Price Total | Fair Market Value Range Per Share | Fair Market Value Total |
|---|---|---|---|---|---|
| COMMON: | | | | | |
| Options which became exercisable during: | | | | | (at date exercisable) |
| 1965 | 10,136 | $ 8.49 to $14.49 | $ 114,206 | $11.06 to $13.38 | $ 130,887 |
| 1966 | 38,368 | 8.49 to 14.49 | 515,234 | 11.50 to 12.63 | 479,078 |
| 1967 | 68,016 | 8.49 to 14.49 | 934,864 | 9.75 to 15.38 | 869,752 |
| Three months ended March 31, 1968 | 14,450 | 9.87 to 15.75 | 204,844 | 12.75 to 13.63 | 195,388 |
| Options exercised during: | | | | | (at date exercised) |
| 1965 | 7,217 | $ 8.49 to $10.57 | $ 75,241 | $11.31 to $13.06 | $ 93,750 |
| 1966 | 6,118 | 8.49 to 10.57 | 63,625 | 11.50 to 13.50 | 74,750 |
| 1967 | 1,716 | 8.49 to 12.77 | 18,783 | 11.25 to 17.75 | 22,759 |
| Three months ended March 31, 1968 | 2,750 | 10.57 | 29,068 | 13.25 to 15.25 | 39,406 |
| Options outstanding as of March 31, 1968: | | | | | |
| Granted during: | | | | | (at date granted) |
| 1962 | 3,067 | $ 8.49 and $10.57 | $ 32,071 | $ 8.93 and $11.12 | $ 33,739 |
| 1963 | 600 | 14.49 | 8,694 | 15.25 | 9,150 |
| 1964 | 1,350 | 12.77 | 17,239 | 13.50 | 18,225 |
| 1965 | 123,000 | 12.13 to 14.25 | 1,732,150 | 12.13 to 14.25 | 1,732,150 |
| 1966 | 5,000 | 9.88 | 49,400 | 9.88 | 49,400 |
| 1967 | 45,000 | 9.75 and 15.75 | 678,750 | 9.75 and 15.75 | 678,750 |
| | 178,017 | | $2,518,304 | | $2,521,414 |
| CLASS B SENIOR CUMULATIVE CONVERTIBLE ($3) PREFERRED: | | | | | |
| Options which became exercisable during: | | | | | (at date exercisable) |
| 1965 | 13,200 | $15.87 to $30.84 | $ 311,439 | $23.87 to $30.69 | $ 376,288 |
| 1966 | 13,022 | 17.49 to 30.84 | 318,842 | 31.36 to 48.64 | 575,418 |
| 1967 | 14,748 | 17.49 to 30.84 | 357,795 | 42.15 to 100.45 | 1,224,665 |

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967

### and (Unaudited) Three Months Ended March 31, 1968

| | Number of Shares | Option Price Range Per Share | Option Price Total | Fair Market Value Range Per Share | Fair Market Value Total |
|---|---|---|---|---|---|
| Options exercised during: | | | | | (at date exercised) |
| 1965 | 4,400 | $13.16 to $25.49 | $ 85,402 | $25.24 to $32.38 | $ 136,275 |
| 1966 | 33,770 | 13.16 to 25.51 | 722,668 | 31.60 to 53.07 | 1,508,913 |
| 1967 | 40,824 | 13.18 to 30.84 | 965,022 | 40.24 to 107.51 | 3,228,313 |
| Three months ended March 31, 1968 | 3,698 | 18.20 to 39.89 | 105,762 | 93.25 to 110.50 | 371,236 |
| Options outstanding as of March 31, 1968: | | | | | |
| Granted during: | | | | | (at date granted) |
| 1962 | 1,100 | $17.49 | $ 19,239 | $18.24 | $ 20,064 |
| 1963 | 880 | 18.20 to 19.71 | 16,680 | 19.15 to 20.75 | 17,556 |
| 1966 | 32,863 | 39.89 to 50.05 | 1,333,257 | 39.89 to 50.05 | 1,333,257 |
| 1967 | 55,000 | 91.14 to 97.95 | 5,016,446 | 91.14 to 97.95 | 5,016,446 |
| | 89,843 | | $6,385,622 | | $6,387,323 |
| $3.15 Cumulative Convertible Preferred: | | | | | |
| Options which became exercisable during: | | | | | (at date exercisable) |
| 1965 | 3,367 | $48.75 to $63.75 | $ 174,745 | $72.75 to $79.86 | $ 252,894 |
| 1966 | 19,750 | 69.30 to 77.64 | 1,483,073 | 61.50 to 78.54 | 1,321,660 |
| Options exercised during: | | | | | (at date exercised) |
| 1965 | 9,130 | $33.99 to $63.75 | $ 361,317 | $70.14 to $81.57 | $ 699,746 |
| 1966 | 20,705 | 33.99 to 72.39 | 803,408 | 61.50 to 91.11 | 1,478,361 |
| 1967 | 5,694 | 38.22 to 77.64 | 339,459 | 72.75 to 118.38 | 566,572 |
| Three months ended March 31, 1968 | 1,549 | 42.54 to 80.25 | 114,301 | 99.00 to 112.00 | 161,544 |
| Options outstanding as of March 31, 1968: | | | | | |
| Granted during: | | | | | (at date granted) |
| 1962 | 85 | $42.54 | $ 3,616 | $49.89 | $ 4,241 |
| 1963 | 1,772 | 43.50 and 44.61 | 78,987 | 51.18 and 52.44 | 92,853 |
| 1964 | 330 | 48.75 to 63.75 | 16,832 | 48.75 to 63.75 | 16,832 |
| 1965 | 16,512 | 69.30 to 77.64 | 1,243,101 | 69.30 to 77.64 | 1,243,101 |
| 1966 | 2,647 | 69.00 to 80.25 | 201,680 | 69.00 to 80.25 | 201,680 |
| | 21,346 | | $1,544,216 | | $1,558,707 |

The companies make no charges to income with respect to stock options. Reference is made to "Glen Alden Options" elsewhere herein.

**I. Retirement Plans**

There are various contributory and non-contributory retirement plans covering eligible employees. Unfunded prior service costs amounted to approximately $6,100,000 at December 31, 1967 and March 31, 1968 of which $5,600,000 is being funded over various periods not exceeding forty years. The amount charged to income under the plans, including interest on all unfunded prior service costs, was $1,002,000, $1,382,000, $1,208,000 and $293,000 for 1965, 1966, 1967 and the three months ended March 31, 1968, respectively. The actuarially computed value of vested benefits under applicable plans exceeded the total of the related pension funds and balance sheet accruals by approximately $2,200,000 as of December 31, 1967 and March 31, 1968.

**J. Leases**

At March 31, 1968, Glen Alden and its subsidiaries were obligated, under leases expiring after March, 1971, for the payment of minimum annual rentals aggregating $9,800,000 plus, in certain instances, additional rentals based upon sales, real estate taxes, insurance, etc. Some of such leases are with officers of consolidated subsidiaries and with trustees of retirement plans. The leases have varying expiration dates to 2029, with the majority expiring by 1982.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### For the Three Years Ended December 31, 1967

### and (Unaudited) Three Months Ended March 31, 1968

K. GUARANTEES, COMMITMENTS, ETC.

As of December 31, 1967 and March 31, 1968, Glen Alden was guarantor as follows:

(a) As to principal, interest, premium (if any) on, and of, the performance of all of the covenants and obligations contained in an indenture relating to $1,702,000 and $1,670,000, at December 31, 1967 and March 31, 1968, respectively, of 5¾% Convertible Subordinated Debentures due December 1, 1969, issued by B.S.F. Company. In order to indemnify Glen Alden, B.S.F. Company has deposited with a bank securities which have an aggregate market value in excess of the principal and premium on such Debentures.

(b) In the amount of approximately $5,800,000 and $5,700,000, at December 31, 1967 and March 31, 1968, respectively, as to mortgage notes (having varying maturities to 1984) previously held by Glen Alden or subsidiaries.

(c) As to a deferred production payment of $834,000 and $554,000, at December 31, 1967 and March 31, 1968, respectively, relating to Glen Alden's coal business which was sold effective January 1, 1966.

(d) In the amount of approximately $3,600,000 at December 31, 1967 and March 31, 1968 for loans payable by Briggs Manufacturing Company to Bankers Life and Casualty Company and to certain factors and banks.

Glen Alden has guaranteed the principal ($18,200,000) and interest on two industrial revenue bond issues of local governmental agencies, which agencies are constructing facilities for lease to International Latex & Chemical Corporation, the capital stock of which was sold on April 29, 1968. Glen Alden has also guaranteed the principal ($731,000) and interest on notes of a subsidiary of International Latex & Chemical Corporation. The purchaser has agreed to indemnify Glen Alden against any loss under the guarantees.

Glen Alden sold on May 24, 1968 certain notes ($8,600,000) secured by mortgages and has guaranteed the payment by the mortgagees of the principal and interest thereon.

Certain consolidated subsidiaries are contingently liable at December 31, 1967 and March 31, 1968, in the approximate amount of $1,450,000, to banks and others with respect to operations of certain foreign subsidiaries not consolidated.

The agreements, as amended, relating to the acquisition of various subsidiary companies include provisions for the repurchase of certain obligations under specified conditions and certain additional rights in the event that Glen Alden fails to repurchase such obligations and include provisions for contingent payments in cash or capital stock based upon future earnings and market prices, as defined, during specified future periods. Such agreements also granted to sellers options to require Glen Alden to purchase a maximum of 44,479 shares of Glen Alden $3.15 Cumulative Convertible Preferred Stock at per share prices ranging from $72.00 to $76.125. These options expire between May 1969 and November 1969.

The Company also has a thirty day commitment (the terms of which commence and expire in approximately three years) to purchase 66,667 shares of its $3.15 Cumulative Convertible Preferred Stock at $75 per share.

Glen Alden has an option to purchase 300,000 shares of Briggs Manufacturing Company common stock from Bankers Life and Casualty Company at a purchase price of $4.50 per share. If Glen Alden fails to exercise its option prior to January 15, 1970, then Bankers Life has a thirty-day option to purchase 395,604 shares of Briggs common stock owned by Glen Alden at a price of $.50 per share.

Glen Alden has granted to certain executives of subsidiaries the right to purchase up to an aggregate of 50,000 shares of the Common Stock of Stanley Warner Corporation (such shares upon the merger of Stanley Warner into Glen Alden became 27,500 shares of Class B Cumulative Convertible ($3) Preferred Stock) at a purchase price of $50 per share ($90.91 as to Class B Stock). Such shares and the initial payments by the purchasers are being held by a trustee until such time as the purchase price, as defined, is paid in full. The aggregate purchase price of $2,500,000 is included in other assets in the balance sheet. The purchasers are entitled to purchase the shares at any time prior to November 30, 1970, which may be extended to November 30, 1973 under certain conditions. If the purchasers do not purchase said shares by November 30, 1970 (November 30, 1973 if the specified conditions have been met) then all right to purchase said shares terminates and the trustees will return the shares and deposits thereon to Glen Alden. See "Stock Bonus Plans" elsewhere herein for subsequent reductions in the aforesaid grants to purchase shares.

There are several claims pending against Glen Alden and its subsidiaries together with other contingencies including Federal income taxes. Reference is made to the following headings, included elsewhere herein, for additional information with respect to certain pending litigation and claims: "Background of Transaction", "R.K.O.—Stanley Warner Theater Division", "Recent Transactions", and "Legal Proceedings—Glen Alden". Total liability cannot be determined but management and counsel are of the opinion that the reserves provided therefor are adequate.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS—(Concluded)

## For the Three Years Ended December 31, 1967 and (Unaudited) Three Months Ended March 31, 1968

### L. Supplementary Profit and Loss Information

| Charged Directly to Profit and Loss | Year Ended December 31, 1965 | 1966 | 1967 | Three Months Ended March 31, 1968 |
|---|---|---|---|---|
| **Maintenance and Repairs:** | | | | |
| Charged to cost of sales and operating expenses | $ 9,543,933 | $ 9,337,479 | $11,053,841 | $2,103,565 |
| Charged to other operating accounts | 455,538 | 456,115 | 531,041 | 140,505 |
| Total | $ 9,999,471 | $ 9,793,594 | $11,584,882 | $2,244,070 |
| **Depreciation, Amortization and Depletion:** | | | | |
| Property, plant and equipment | $11,250,256 | $11,251,740 | $11,321,498 | $2,936,108 |
| Less amortization of excess of equity in net assets over cost of the investments in acquired companies | (452,000) | (405,000) | (366,000) | (81,250) |
| Net | $10,798,256 | $10,846,740 | $10,955,498 | $2,854,858 |
| Intangibles—charged to other—net | $ 726,779 | $ 659,681 | $ 598,827 | $ 137,653 |
| **Taxes, other than Federal income taxes:** | | | | |
| Payroll | $ 6,449,085 | $ 8,237,491 | $ 8,113,280 | $2,731,509 |
| Property | 3,785,332 | 3,558,267 | 3,574,561 | 929,619 |
| Other | 1,546,823 | 2,425,035 | 1,445,900 | 468,257 |
| Total | $11,781,240 | $14,220,793 | $13,133,741 | $4,129,385 |
| Charged to cost of sales and operating expenses | $ 9,290,698 | $11,114,212 | $ 9,769,810 | $3,021,662 |
| Charged to other operating accounts | 2,490,542 | 3,106,581 | 3,363,931 | 1,107,723 |
| Total | $11,781,240 | $14,220,793 | $13,133,741 | $4,129,385 |
| **Management and service contract fees:** | | | | |
| Charged to cost of sales and operating expenses | — | $ 24,000 | $ 16,593 | $ 3,091 |
| Charged to other operating accounts | $ 500,000 | 560,000 | 534,417 | 25,359 |
| | $ 500,000 | $ 584,000 | $ 551,010 | $ 28,450 |
| **Rents:** | | | | |
| Charged to cost of sales and operating expenses | $ 5,399,097 | $ 6,191,318 | $ 6,081,919 | $1,590,864 |
| Charged to other operating accounts | 4,026,553 | 5,469,587 | 5,270,404 | 1,139,046 |
| Total | $ 9,425,650 | $11,660,905 | $11,352,323 | $2,729,910 |
| **Royalties:** | | | | |
| Charged to cost of sales and operating expenses | $ 308,367 | $ 190,917 | $ 25,031 | $ 27,597 |
| Charged to other operating accounts | 92,510 | 236,874 | 232,637 | 55,064 |
| Total | $ 400,877 | $ 427,791 | $ 257,668 | $ 82,661 |

### M. Subsequent Events

See "Background of Transaction" elsewhere herein for information concerning Glen Alden's purchase of shares of Schenley Industries, Inc. common stock.

See "Recent Transactions" elsewhere herein for information concerning sales during April 1968 of certain theater properties and International Latex & Chemical Corporation.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Schenley Industries, Inc.:

We have examined the consolidated balance sheet of Schenley Industries, Inc., (a Delaware corporation) and subsidiary companies as of August 31, 1967, and the related statements of consolidated income (included on page 21), retained earnings and capital surplus for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of The Buckingham Corporation (52.66% owned) and certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co., Ltd., (a 75% owned British subsidiary not consolidated) for periods subsequent to August 31, 1964. We have been furnished with the reports of other auditors with respect to such subsidiaries, which in the aggregate account for 17% of total consolidated assets as of August 31, 1967.

In our opinion, based upon our examination and the reports of other auditors referred to above, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings and capital surplus present fairly the consolidated financial position of Schenley Industries, Inc. and subsidiary companies as of August 31, 1967, and the results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied (after retroactive restatement for the changes described in notes (a) and (c) to the statement of consolidated income) consistently during the periods.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
October 20, 1967.

## OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BUCKINGHAM CORPORATION:

We have examined the balance sheet of The Buckingham Corporation as of August 31, 1967 and the related statement of income and retained earnings for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements (not presented separately herein) present fairly the financial position of The Buckingham Corporation at August 31, 1967 and the results of its operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

HASKINS & SELLS

New York, N. Y.
September 28, 1967

## REPORTS OF CHARTERED ACCOUNTANTS

To: CANADIAN SCHENLEY DISTILLERIES, LTD.

We have examined the consolidated balance sheet of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of August 31, 1967, and the related statements of Consolidated Income and Retained Earnings for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

At September 1, 1965, (in order to conform to the accounting method followed by Schenley Industries, Inc., the parent company) the Company changed its accounting treatment of barrel costs. Prior to that date, the cost of a barrel was included in the cost of goods sold after its first use by the Company. Under the present practice the cost of a barrel is being amortized over the period of its expected usefulness. Had the previous practice been in effect the net income reported for the year ended August 31, 1966, would have been approximately $118,000 lower.

In our opinion, based upon our examination, the financial statements referred to above (not separately presented herein) present fairly the consolidated financial position of Canadian Schenley Distilleries, Ltd., and its wholly owned subsidiary companies as of August 31, 1967, and the results of their operations for the three years then ended in conformity with generally accepted accounting principles applied, except for the change in accounting for the cost of barrels referred to in the preceding paragraph, consistently during the periods.

SAMSON, BELAIR, COTE,
LACROIX & ASSOCIES
Chartered Accountants

Montreal, October 19, 1967.

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To the Members of Seager Evans & Co., Limited

We have examined the consolidated balance sheet at August 31, 1967, and the related consolidated profit and loss account for the three years then ended of Seager Evans & Co., Limited and subsidiaries. We have obtained all the information and explanations which we considered necessary. Our examination was made in accordance with generally accepted auditing standards and included all procedures necessary in the circumstances. The accounts of the principal subsidiary companies have been audited by other auditing firms whose reports thereon have been furnished to us.

In our opinion, based upon our examination and the aforementioned reports of other auditing firms, such financial statements and the notes thereto, (not presented separately herein) present fairly the consolidated financial position of Seager Evans & Co., Limited and subsidiaries at August 31, 1967, and the results of the group for each of the three years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

London, England,
18th October, 1967.

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Reference is made to Part II of this Registration Statement (Page S-2) for the reports of other auditing firms referred to in the report of Peat, Marwick, Mitchell & Co.

A1255

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### CONSOLIDATED BALANCE SHEETS

### August 31, 1967 (Audited) and May 31, 1968 (Unaudited)

ASSETS

| | August 31, 1967 (Audited) | May 31, 1968 (Unaudited) |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 15,645,958 | $ 14,198,718 |
| Certificates of Deposit | 5,000,000 | 2,368,000 |
| Other Marketable Securities, at Cost which Approximates Market | 25,065,482 | 30,468,081 |
| Notes and Accounts Receivable | 119,020,888 | 138,613,657 |
| Less—Reserve for Doubtful Accounts | 1,651,562 | 1,692,020 |
| | 117,369,326 | 136,921,637 |
| Inventories (Note 2): | | |
| Whisky, Other Spirits and Wine, at Cost— | | |
| Tax Paid | 13,738,954 | 20,715,391 |
| In Bond | 285,368,029 | 291,126,939 |
| Other Products, Materials and Supplies, at Lower of Cost or Market | 19,149,534 | 21,477,954 |
| | 318,256,517 | 333,320,284 |
| Total Current Assets | 481,337,283 | 517,276,720 |
| INVESTMENTS (Note 1): | | |
| Seager Evans & Co., Ltd., Stated at Equity in Underlying Net Assets | 18,706,769 | 18,166,196 |
| Other Investments, at Cost | 2,582,452 | 2,883,678 |
| | 21,289,221 | 21,049,874 |
| PROPERTY, PLANT AND EQUIPMENT (Note 3): | | |
| Land, Buildings, Machinery, Equipment, etc., at Cost | 110,093,014 | 114,344,763 |
| Less—Accumulated Depreciation and Amortization | 64,586,578 | 66,745,313 |
| | 45,506,436 | 47,599,450 |
| PREPAID AND DEFERRED CHARGES | 3,956,013 | 3,136,481 |
| GOODWILL, BRANDS AND TRADEMARKS (Notes 1 and 9) | 18,594,431 | 18,609,267 |
| | $570,683,384 | $607,671,792 |

The accompanying notes to the consolidated financial statements are an integral part of the above Balance Sheets.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### CONSOLIDATED BALANCE SHEETS

### August 31, 1967 (Audited) and May 31, 1968 (Unaudited)

### LIABILITIES AND SHAREHOLDERS' INTEREST

| | August 31, 1967 (Audited) | May 31, 1968 (Unaudited) |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes Payable—Short-Term | $ 83,200,000 | $120,750,000 |
| Current Maturity of Long-Term Debt (Note 5) | 1,250,000 | 3,500,000 |
| Accounts Payable—Trade | 21,226,590 | 19,593,884 |
| Accrued Payrolls and Employee Benefits | 2,972,192 | 5,145,530 |
| Accrued Interest Payable | 921,605 | 307,590 |
| Sundry Taxes, Including Federal Excise Taxes | 30,024,916 | 24,101,102 |
| Reserve for Federal Income Taxes | 11,189,588 | 8,576,370 |
| Sundry Accrued and Other Current Liabilities | 7,490,309 | 9,095,205 |
| Total Current Liabilities | 158,275,200 | 191,069,681 |
| LONG-TERM DEBT (Note 5) | 90,000,000 | 85,250,000 |
| DEFERRED TAXES (Note 3) | 5,553,497 | 4,693,404 |
| CONTINGENT LIABILITIES (Notes 1, 2 and 10) | | |
| MINORITY INTEREST IN THE BUCKINGHAM CORPORATION (Note 1): | | |
| Capital Stock | 1,372,775 | 1,372,775 |
| Capital Surplus | 4,723,256 | 4,723,256 |
| Retained Earnings | 11,896,008 | 12,277,507 |
| | 17,992,039 | 18,373,538 |
| SHAREHOLDERS' INTEREST: | | |
| Cumulative Convertible Preference Stock— | | |
| Authorized—4,000,000 shares of $.35 par value | | |
| Issued—650,556 and 535,504 shares at August 31, 1967 and May 31, 1968, respectively (preference on involuntary liquidation—$6,505,560 at August 31, 1967 and $5,355,040 at May 31, 1968.) (Note 8) | 227,695 | 187,426 |
| Common Stock— | | |
| Authorized—20,000,000 shares of $.93⅓ par value | | |
| Issued—9,301,338 and 9,339,032 shares at August 31, 1967 and May 31, 1968, respectively (Notes 7 and 8) | 8,681,249 | 8,716,430 |
| Capital Surplus | 59,318,361 | 59,464,970 |
| Retained Earnings (Notes 1 and 5) | 265,338,672 | 274,619,648 |
| | 333,565,977 | 342,988,474 |
| Less—Treasury Stock, at Cost—486 Shares of Cumulative Convertible Preference Stock and 1,612,276 Shares of Common Stock | 34,703,329 | 34,703,305 |
| | 298,862,648 | 308,285,169 |
| | $570,683,384 | $607,671,792 |

The accompanying notes to the consolidated financial statements are an integral part of the above Balance Sheets.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

| | Fiscal Years Ended August 31 | | | | | Nine Months Ended May 31, 1968 |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 (Audited) | 1966 | 1967 | (Unaudited) |
| Balance Beginning of Period (Note 1) | $209,813,038 | $215,033,466 | $220,566,668 | $238,577,091 | $250,050,106 | $265,338,672 |
| Add— | | | | | | |
| Net Income | 11,636,886 | 11,318,801 | 23,960,646 | 20,469,743 | 22,725,868 | 16,537,068 |
| Reversal of amounts previously capitalized in connection with stock dividends on treasury shares subject to option | — | 640,843 | — | — | — | — |
| | 221,449,924 | 226,993,110 | 244,527,314 | 259,046,834 | 272,775,974 | 281,875,740 |
| Deduct— | | | | | | |
| Cash dividends | | | | | | |
| Cumulative convertible preference stock | 475,214 | 476,084 | 477,038 | 478,219 | 325,462 | 144,466 |
| Common stock—regular | 5,941,244 | 5,950,358 | 5,473,185 | 6,518,235 | 7,111,840 | 7,111,626 |
| Common stock—special | — | — | — | 2,000,274 | — | — |
| | 6,416,458 | 6,426,442 | 5,950,223 | 8,996,728 | 7,437,302 | 7,256,092 |
| Balance End of Period | $215,033,466 | $220,566,668 | $238,577,091 | $250,050,106 | $265,338,672 | $274,619,648 |

### STATEMENTS OF CONSOLIDATED CAPITAL SURPLUS

| | Fiscal Years Ended August 31 | | | | | Nine Months Ended May 31, 1968 |
|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 (Audited) | 1966 | 1967 | (Unaudited) |
| Balance Beginning of Period | $58,024,699 | $58,043,582 | $57,586,404 | $58,337,049 | $58,803,618 | $59,318,361 |
| Add (Deduct)— | | | | | | |
| Excess of option price over par value of common stock and cumulative convertible preference stock sold and from conversions of cumulative convertible preference stock into common stock (Notes 7 and 8) | 18,883 | 157,783 | 750,645 | 466,569 | 514,743 | 146,609 |
| Reversal of amounts previously capitalized in connection with stock dividends on treasury shares subject to option | — | (614,961) | — | — | — | — |
| Balance End of Period | $58,043,582 | $57,586,404 | $58,337,049 | $58,803,618 | $59,318,361 | $59,464,970 |

The accompanying notes to the consolidated financial statements are an integral part of the above statements.

# SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (INCLUDING NOTES APPLICABLE TO UNAUDITED PERIODS)

**(1) Principles of Consolidation:**

All significant subsidiary companies, other than Seager Evans & Co., Ltd., have been consolidated including the accounts of The Buckingham Corporation since August 31, 1964 the date of Schenley Industries, Inc.'s (Schenley) purchase of 52.66% of Buckingham's outstanding capital stock. The amount by which Schenley's investment in Buckingham exceeds its equity in the net assets of that subsidiary at date of acquisition based on underlying book values is included as "Goodwill". Exhibit I contains a summary of the financial position of Buckingham as of August 31, 1967 and May 31, 1968. Exhibit II contains condensed statements of income and retained earnings of Buckingham for the three fiscal years ended August 31, 1967 and the nine months ended May 31, 1967 and 1968.

On April 25, 1966, the United States Department of Justice filed a civil antitrust case naming Schenley and The Buckingham Corporation as defendants. The suit asserts that the acquisition of the stock of The Buckingham Corporation by Schenley on August 31, 1964 was in violation of the antimerger section of the Clayton Act. Schenley has filed an answer denying the material allegations of the complaint and asserting, in addition, various separate and complete defenses to the action. The case is pending in the United States District Court for the Southern District of New York. No date for trial has been set as yet. Counsel for Schenley are of the opinion that Schenley has meritorious defenses to this complaint.

The financial statements of Canadian subsidiaries have been consolidated herein on the basis of translating current assets (other than inventories held for sale in the United States and other non-Canadian markets) and current liabilities at the rates prevailing at each date, while property, plant and equipment and inventories held for sale in the United States and other non-Canadian markets have been translated at historical U. S. dollar cost. The charges and credits as a result of these conversions, all of which are insignificant in amount, are reflected in income in the respective years.

The accounts of Seager Evans & Co., Ltd., a subsidiary in Great Britain in which Schenley owns 75% of the outstanding capital stock, have not been consolidated herein. Effective for the year ended August 31, 1965, Schenley adopted the policy of stating its investment at its equity in underlying net assets and including in consolidated income its equity (computed after minority interest and adjustments for intercompany eliminations) in the earnings of Seager Evans. Schenley previously carried this investment at cost and included in consolidated net income only the dividends received. Retroactive application of this change in accounting policy had the effect of increasing net income as previously reported by $1,118,777 for fiscal year ended August 31, 1963 and $891,876 for fiscal year ended August 31, 1964 and increasing retained earnings at September 1, 1962 by $5,320,192. The computation of such equity is based upon financial statements in pounds sterling (converted at the then prevailing rate). Cash dividends of $1,092,000 in fiscal 1967; $779,938 in fiscal 1966; $606,994 in fiscal 1965 and $939,573 in the nine months ended May 31, 1968, have been credited to Schenley's investment in Seager Evans. The carrying value of Schenley's investment in Seager Evans exceeded cost by $9,772,767 at August 31, 1967 and $9,232,194 at May 31, 1968. These amounts are included in Consolidated Retained Earnings.

Schenley also has small investments in certain other wholly-owned foreign subsidiaries, which are included in "Other Investments" in the accompanying balance sheets. Separate financial statements have not been presented for Seager Evans & Co., Ltd., or other non-consolidated subsidiaries since they, considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

In the preparation of the consolidated financial statements, intercompany investments and capital stock, intercompany accounts receivable and payable, intercompany profits in inventories, intercompany sales or other intercompany transactions have been eliminated.

The amount at which investments in the capital stocks of subsidiaries consolidated were carried on the books of Schenley was $64,508,609 at August 31, 1967 (audited), and $69,140,899 at May 31, 1968 (unaudited), less than Schenley's equity in the net assets of such subsidiaries, as shown by the books of the latter at such dates. In the consolidated financial statements, this difference has been treated as follows:

| | August 31, 1967 | May 31, 1968 |
|---|---|---|
| Included in consolidated retained earnings | $81,226,336 | $85,822,554 |
| Added to: | | |
| Goodwill, brands and trademarks | 18,172,152 | 18,176,990 |
| Prepaid and deferred charges | 113,000 | 97,000 |
| Property, plant and equipment | 377,000 | 377,000 |
| Deducted from inventories—intercompany profits in inventory | (1,944,425) | (1,969,335) |
| | 16,717,727 | 16,681,655 |
| | $64,508,609 | $69,140,899 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**(2) Inventories:**

The inventories in bond, classified as current assets in accordance with the general practice of the industry, include whisky and other spirits which, in the normal course of business, will remain in storage to be aged for a period of several years. It is not possible to state the amount of the inventory which will be realized within one year.

Federal, state and other liquor taxes and duties (payable upon withdrawal of the products from bond or as otherwise required under existing laws) which constitute a lien, substantial in amount, on the inventories of whisky and other spirits and wine carried on the books of Schenley and its subsidiaries, cannot be determined definitely at the present time. Inasmuch as these taxes and duties are not payable until withdrawal or removal of such products from bond (which products, under existing Federal laws, may be stored in bond for any period up to twenty years, and longer under certain conditions set forth in the law) or other Government-controlled premises and in accordance with the practice of the industry, the liability therefor has not been reflected in the accounts. When paid, the amount of such taxes and duties will result in a corresponding increase in cost of inventories.

Whisky and other domestic spirits are priced at cost; other inventories are priced at the lower of average cost or market. Costs of bulk whiskies are kept by type of whisky and date of production (i.e., by seasons—spring and fall). Effective in 1965, Schenley made certain changes in its cost accounting practices which do not significantly affect the financial statements for the five years ended August 31, 1967 or the unaudited nine month period ended May 31, 1968. Under the cost accounting practices in effect prior to 1965, all domestic bulk whiskies which were four years of age or older at December 31, 1964, are carried in inventory at average cost within major categories. Effective January 1, 1965, all other domestic bulk whiskies are carried at actual production costs for the season in which produced, or at actual cost if purchased. Warehousing, insurance and barrel costs applicable to whisky and spirits held for aging are included in inventory. The aggregate amounts of the inventories at the beginning and end of the period, for the three years and nine months ended May 31, 1968 were as follows:

| | |
|---|---|
| August 31, 1964 | $275,420,192 |
| 1965 | 290,621,446 |
| 1966 | 311,105,338 |
| 1967 | 318,256,517 |
| May 31, 1968 (Unaudited) | $333,320,284 |

**(3) Property, Plant and Equipment:**

Detail of property, plant and equipment and the related reserves for depreciation or amortization is as follows:

| | August 31, 1967 | | May 31, 1968 | |
|---|---|---|---|---|
| | Assets | Reserves for Depreciation and Amortization | Assets | Reserves for Depreciation and Amortization |
| | (Audited) | | (Unaudited) | |
| Land | $ 3,210,604 | $ — | $ 3,434,216 | $ — |
| Buildings and improvements | 47,370,063 | 25,276,991 | 49,299,347 | 26,181,670 |
| Machinery and equipment | 45,624,528 | 32,601,670 | 47,153,063 | 33,756,619 |
| Furniture and fixtures | 3,749,837 | 2,728,176 | 3,850,478 | 2,819,227 |
| Other | 10,137,982 | 3,979,741 | 10,607,659 | 3,987,797 |
| | $110,093,014 | $64,586,578 | $114,344,763 | $66,745,313 |

Property, plant and equipment is stated generally at cost. The amount at which property and plant is carried does not purport to represent its present day replacement or realizable value.

Neither the additions nor the retirements or sales at cost during the three years and nine months ended May 31, 1968 exceeded 10% of the closing balance in any period as shown below:

| Year Ended August 31 | Additions | Retirements or Sales | Closing Balance |
|---|---|---|---|
| 1965 | $6,607,136 | $1,383,639 | $102,975,252 |
| 1966 | 4,366,874 | 2,029,927 | 105,312,199 |
| 1967 | 5,765,940 | 985,125 | 110,093,014 |
| Nine Months Ended May 31, 1968 (Unaudited) | $5,135,141 | $ 883,392 | $114,344,763 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For accounting purposes, depreciation is provided principally on a straight-line method at specific rates applied to individual assets. The rates of depreciation used are generally as follows:

| | |
|---|---|
| Buildings | 2-8% |
| Machinery and equipment | 4-25% |
| Other | 2½-33⅓% |
| Leasehold improvements | Duration of lease or life of improvement, whichever is shorter. |

For Federal income tax purposes, Schenley and its domestic subsidiaries use guideline rates, pursuant to Internal Revenue Service Procedure 62-21, and the Canadian subsidiaries compute depreciation for income tax purposes using accelerated methods. The resulting reduction in income taxes currently payable for the five years ended August 31, 1967 and the nine months ended May 31, 1967 and 1968 which was added to the provision for taxes on income and included in deferred taxes is as follows:

| Year Ended August 31 | United States | Canadian | Total |
|---|---|---|---|
| 1963 | $700,000 | $ — | $ 700,000 |
| 1964 | 900,000 | — | 900,000 |
| 1965 | 865,000 | — | 865,000 |
| 1966 | 868,000 | 204,000 | 1,072,000 |
| 1967 | 800,000 | 194,000 | 994,000 |
| **Nine Months Ended May 31 (Unaudited)** | | | |
| 1967 | $754,000 | $145,000 | $ 899,000 |
| 1968 | 75,000 | 40,000 | 115,000 |

Provision for depreciation on property used in production and storage of maturing spirits is added to the cost of the inventory.

Depreciation and amortization on property, plant and equipment provided during the five years ended August 31, 1967 and the nine months ended May 31, 1967 and 1968 is as follows:

| Year Ended August 31 | Amount |
|---|---|
| 1963 | $2,770,411 |
| 1964 | 2,841,025 |
| 1965 | 3,129,758 |
| 1966 | 3,330,006 |
| 1967 | 3,377,364 |
| **Nine Months Ended May 31 (Unaudited)** | |
| 1967 | $2,538,320 |
| 1968 | 2,663,485 |

All maintenance and repair costs and renewals which do not involve substantial betterment are charged to costs of production or directly to expense. When an item or unit of property is replaced and substantial betterment results, the cost of the replaced property is removed from the property account and the cost of the replacement property is capitalized.

At the time of retirement or sale of properties, an amount equivalent to depreciation of the asset, calculated at specific depreciation rates, is transferred from the property account to the reserve for depreciation and the remaining balance, if any, in the property account, less salvage value is charged or credited to profit and loss.

**(4) Investment Credit:**

In 1964 Schenley and its domestic subsidiaries adopted the policy of reducing the provision for Federal income tax by the full amount of the estimated allowable investment credit. The amount of such reduction in the provision for Federal taxes on income is as follows:

| Year Ended August 31 | Amount |
|---|---|
| 1964 (including $253,369 applicable to prior years) | $669,060 |
| 1965 | 724,640 |
| 1966 | 717,311 |
| 1967 | 578,593 |
| **Nine Months Ended May 31 (Unaudited)** | |
| 1967 | $314,698 |
| 1968 | 540,993 |

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

**(5) Long-term Debt:**

At August 31, 1967 (audited) and May 31, 1968 (unaudited) long-term debt was comprised of the following loans from insurance companies:

| | August 31, 1967 | May 31, 1968 |
|---|---|---|
| Due March 1, 1969— | | |
| at 3.20% | $26,125,000 | $ — |
| at 5.25% | 48,875,000 | — |
| | 75,000,000 | — |
| Due March 1, 1979 at 6.50% | — | 71,500,000 |
| Due November 1, 1975 at 3% (annual prepayments of $1,250,000 through 1969, and thereafter at $2,000,000 annually until November 1, 1975, when the remaining balance becomes due) | 15,000,000 | 13,750,000 |
| | $90,000,000 | $85,250,000 |

Under supplemental agreements dated December 15, 1967 to the $75,000,000 loans due March 1, 1969, the payment of $71,500,000 has been extended to March 1, 1979, at an annual interest rate of 6.5% effective January 1, 1968. The remaining $3,500,000 remains due on March 1, 1969. The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings and also provide that Schenley may not pay dividends or acquire any of its capital stock, if, after giving effect to the payments for such purposes, the excess of consolidated current assets over consolidated current liabilities and long-term debt shall be less than $80,125,000. The amount of such excess (as defined in the December 15, 1967 supplemental agreements) at August 31, 1967 and May 31, 1968 was $233,062,083 and $236,263,635, respectively. Such payments are also restricted to the sum of $50,000,000 plus consolidated net income, as defined, subsequent to September 1, 1967.

Aggregate minimum maturities after giving effect to the change in the loan agreements referred to above for the five years subsequent to August 31, 1968, are as follows:

| Fiscal Year | |
|---|---|
| 1969 | $3,500,000 |
| 1970 | 1,250,000 |
| 1971 | 2,000,000 |
| 1972 | 2,000,000 |
| 1973 | 2,000,000 |

**(6) Employees' Retirement and Benefit Plan:**

Schenley has an employees' retirement and benefit plan for itself and participating subsidiaries.

Retirement benefits, including certain benefits for widows of participants, are provided on a noncontributory basis for substantially all employees not covered by union plans. Retirement annuities are purchased by a pension trust to which Schenley contributes, as required. Group life insurance is provided on a contributory basis. Health and medical service benefits are provided with contributions being required from all employees who are not participants in both the retirement and life insurance programs. The plan provides that all contributions made by the companies shall be voluntary and that the companies shall not have any legal or equitable liability to make any such contributions.

Normal service costs under the retirement plan (after deducting income tax benefit) are presently estimated to be $900,000 per year. In the accompanying financial statements for the three fiscal years ended August 31, 1967, no provision for such costs had been necessary, nor had Schenley made any contributions to the pension trust for such years, inasmuch as actuarial cost calculations (based on increased rates as to assumed future earnings) indicated that costs accrued during the fiscal years were already fully funded. Commencing September 1, 1967, Schenley is providing currently for such costs which amounted to $650,000 (after deducting income tax benefit) for the nine months ended May 31, 1968. Provision has been made for costs relating to the plan of a Canadian subsidiary which provides substantially the same benefits as Schenley's plan described above and certain plans provided for in collective bargaining agreements with labor unions.

The annual costs, net of income tax benefits, to the companies for the life insurance, health and medical benefits referred to above for the three fiscal years ended August 31, 1967, were approximately $557,000 in 1967; $395,000 in 1966 and $400,000 in 1965 and approximately $500,000 for the nine months ended May 31, 1968.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In addition to the above, The Buckingham Corporation has a trusteed profit-sharing retirement plan for eligible employees. The plan requires a contribution by Buckingham to the profit-sharing trust fund for each year of an amount equal to the lesser of 15% of eligible employees' base compensation for such year or 33⅓% of the net earnings of Buckingham before taxes in excess of $850,000 (exclusive of capital gains and losses and before calculation of the contribution to the fund). The cost to Buckingham for the three fiscal years ended August 31, 1967, for employees covered under this plan, before any tax benefit, was $48,000 in 1967; $50,000 in 1966; $75,000 in 1965 and approximately $38,000 for the nine months ended May 31, 1968.

**(7) Stock Options and Key Executive Deferred Compensation Incentive Plan:**

Schenley's Employees' Share Purchase Plan provided for sale of shares of Schenley's common stock to certain key employees, including officers, at prices not less than 95% of fair market value at the date the option to purchase such shares was granted (after December 31, 1963, such price being 100% of fair market value). The Board of Directors determined in January 1966, that there would be no further grants under the Plan. Options become exercisable in cumulative periodic installments. As of August 31, 1967 and May 31, 1968, the maximum number of shares available for issue under the Plan and the number of shares subject to outstanding options was 19,650 and 9,150 shares of common stock respectively (after adjustments for stock dividends paid in common stock) as shown on the following tabulation:

| | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Date of Grant(2) Per Share | Fair Market Value at Date of Grant(2) Total |
|---|---|---|---|---|---|
| AT AUGUST 31, 1967 | | | | | |
| GRANTED 1962-1965 | 19,650 | $12.508 to $15.417 | $266,818 | $13.000 to $15.417 | $ 274,008 |
| AT MAY 31, 1968 (UNAUDITED) | | | | | |
| GRANTED 1962-1965 | 9,150 | $12.508 to $15.417 | $125,302 | $13.000 to $15.417 | $ 127,894 |

During the three years and nine months ended May 31, 1968 options became exercisable as follows:

| | Shares(1) Preference | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Exercisable Date(2) Per Share | Fair Market Value at Exercisable Date(2) Total |
|---|---|---|---|---|---|---|
| YEAR ENDED AUGUST 31, 1965 | | | | | | |
| GRANTED 1955-1964 | 1,231 | 30,955 | $ 9.184 to $25.783 | $437,550 | $14.000 to $22.792 | $ 595,636 |
| YEAR ENDED AUGUST 31, 1966 | | | | | | |
| GRANTED 1958-1965 | 613 | 25,941 | $ 9.183 to $16.393 | $331,572 | $19.333 to $27.167 | $ 644,984 |
| YEAR ENDED AUGUST 31, 1967 | | | | | | |
| GRANTED 1958-1965 | 1,228 | 29,757 | $ 9.183 to $16.393 | $362,111 | $16.833 to $40.625 | $ 926,428 |
| NINE MONTHS ENDED MAY 31, 1968 (UNAUDITED) | | | | | | |
| GRANTED 1963-1965 | — | 8,700 | $12.508 to $15.417 | $114,456 | $32.583 to $42.667 | $ 444,318 |

During the three years and nine months ended May 31, 1968 options were exercised as follows:

| | Shares(1) Preference | Shares(1) Common | Option Price(1) Per Share | Option Price(1) Total | Fair Market Value at Date Exercised(2) Per Share | Fair Market Value at Date Exercised(2) Total |
|---|---|---|---|---|---|---|
| YEAR ENDED AUGUST 31, 1965 | | | | | | |
| GRANTED 1955-1964 | 3,723 | 68,658 | $ 9.184 to $14.409 | $816,027 | $14.083 to $24.000 | $1,452,882 |
| YEAR ENDED AUGUST 31, 1966 | | | | | | |
| GRANTED 1958-1965 | 904 | 35,041 | $ 9.183 to $22.515 | $499,589 | $20.750 to $28.375 | $ 896,406 |
| YEAR ENDED AUGUST 31, 1967 | | | | | | |
| GRANTED 1958-1965 | 1,907 | 40,401 | $ 9.183 to $22.515 | $552,692 | $20.583 to $42.667 | $1,350,279 |
| NINE MONTHS ENDED MAY 31, 1968 (UNAUDITED) | | | | | | |
| GRANTED 1962-1965 | — | 10,500 | $12.508 to $15.417 | $141,516 | $31.375 to $46.167 | $ 445,087 |

(1) The option price and per share data relate only to common shares. Preference shares were also issuable under the Plan to reflect stock dividends paid in such stock.

(2) Average of high and low on New York Stock Exchange.

(3) The information in this Note reflects the 3 for 2 common stock split referred to in Note (d) to the Statement of Consolidated Income included elsewhere in this Prospectus.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For each common share purchased upon exercise of an option, $.93⅓ of the purchase price was credited to common stock and, where applicable, $.35 was credited to preference stock and the balance to capital surplus. No charge was reflected in the income statement relative to any option.

As of August 31, 1967 and May 31, 1968, options with respect to 4,050 and 2,250 common shares were exercisable, respectively. Options for the 6,900 remaining common shares at May 31, 1968 become exercisable at various dates to 1973.

Under Schenley's trusteed Key Executive Deferred Compensation Incentive Plan approved by the shareholders in 1966, deferred compensation units, each equal to one share of Schenley's common stock, are awarded to key employees of Schenley. Schenley has deposited, in the year ended August 31, 1967, with the trustee 12,825 shares of its common stock previously purchased for awards. The cost of such shares, less the estimated income tax benefit applicable thereto, has been charged to income. An additional 9,975 shares of its common stock has been deposited with the trustee for awards during the nine months ended May 31, 1968 and the cost of these shares, less the estimated income tax benefit, has been charged to income.

**(8) Cumulative Preference Stock:**

The cumulative preference stock may be redeemed in whole or in part, upon resolution of the Board of Directors at any time after January 1, 1967, upon not less than thirty days previous notice, at a redemption price of $10.00 per share, plus any cumulative dividends applicable thereto. There were no arrearages in cumulative dividends as of August 31, 1967 or May 31, 1968.

The cumulative preference stock has a preference, in the event of involuntary liquidation, of $10.00 per share plus full cumulative dividends thereon, if any.

There are no restrictions on surplus by reason of the fact that on an involuntary liquidation the amount payable on the cumulative preference stock would exceed the aggregate par value of such stock.

Cumulative preference stock is convertible into a share of Schenley's common stock before January 1, 1970, by exchanging 4 shares of preference stock during calendar year 1967, 4⅔ shares during 1968 and 5⅓ shares thereafter until January 1, 1970. At August 31, 1967 and May 31, 1968 there were approximately 160,000 and 115,000 shares of Schenley's authorized and unissued common stock reserved for conversion of preference shares presently issued, respectively.

**(9) Goodwill, brands and trademarks:**

A substantial portion of intangibles represents the excess of the purchase price over equity in net tangible assets of companies acquired, and is not being amortized, since in the opinion of Schenley there has been no diminution of value. The balance is being amortized using a pre-determined rate applied to sales of certain products.

**(10) Contingent Liabilities:**

Schenley and certain of its subsidiaries are contingently liable under certain guarantees, letters of credit, and are the defendants in certain litigation now pending. In the opinion of management and legal counsel, the amounts of these contingencies are not material in relation to Schenley's consolidated financial position.

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

**(11) Supplementary Profit and Loss Information:**

| | Fiscal Years Ended August 31 | | | Nine Months Ended May 31, 1968 |
|---|---|---|---|---|
| | 1965 | 1966 (Audited) | 1967 | (Unaudited) |
| Maintenance and repairs: | | | | |
| Charged directly to profit and loss | $ 135,599 | $ 127,069 | $ 193,847 | $ 159,950 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 3,114,018 | 3,397,205 | 2,723,104 | 1,704,009 |
| | $ 3,249,617 | $ 3,524,274 | $ 2,916,951 | $ 1,863,959 |
| Depreciation and amortization of fixed and intangible assets: | | | | |
| Charged directly to profit and loss | $ 571,414 | $ 552,760 | $ 576,274 | $ 455,644 |
| Charged to other accounts (Production and Bottling Costs, etc.) | 2,684,344 | 2,925,277 | 2,932,089 | 2,314,841 |
| | $ 3,255,758 | $ 3,478,037 | $ 3,508,363 | $ 2,770,485 |
| Taxes, other than income taxes: | | | | |
| Charged directly to profit and loss | $ 2,122,958 | $ 3,190,793 | $ 3,053,890 | $ 2,943,890 |
| Charged to other accounts: | | | | |
| Inventory costs, etc. | 248,617,024 | 259,375,883 | 257,491,903 | 204,457,633 |
| Sales, Accounts Receivable, etc. | 9,766,980 | 10,278,735 | 13,381,736 | 11,972,609 |
| | $260,506,962 | $272,845,411 | $273,927,529 | $219,374,132 |
| Detail of taxes included above: | | | | |
| Federal excise and rectification taxes, duties on imported products, and other Federal taxes | $242,097,771 | $252,584,551 | $250,254,823 | $198,145,792 |
| State beverage taxes | 5,163,660 | 6,145,533 | 8,536,464 | 8,619,609 |
| License fees and production and state stamp taxes | 6,745,121 | 6,717,945 | 6,211,663 | 4,399,012 |
| State and local property and franchise | 4,834,148 | 5,474,537 | 6,818,206 | 6,376,335 |
| Social Security taxes | 1,666,262 | 1,922,845 | 2,106,373 | 1,833,384 |
| | $260,506,962 | $272,845,411 | $273,927,529 | $219,374,132 |
| Rents and royalties: | | | | |
| Charged directly to profit and loss | $ 1,557,656 | $ 1,466,335 | $ 1,573,784 | $ 1,173,513 |
| Charged to other accounts | 258,100 | 253,746 | 205,802 | 158,068 |
| | $ 1,815,756 | $ 1,720,081 | $ 1,779,586 | $ 1,331,581 |

(1) The information shown as "charged to other accounts" applies in part to expenses incurred in production and storage of maturing whisky and other spirits; under the methods of accounting followed by the companies, such expenses become a part of inventory cost and are charged to profit and loss when such products are sold.

(2) Schenley and its subsidiaries are lessees under seventeen lease agreements which expire more than three years after May 31, 1968. The aggregate annual rental under these agreements is $1,410,000.

A1265

Exhibit I

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## THE BUCKINGHAM CORPORATION

### SUMMARY OF FINANCIAL POSITION

### August 31, 1967 and May 31, 1968

| | August 31, 1967 | May 31, 1968 |
|---|---|---|
| Cash | $ 1,176,230 | $ 752,145 |
| Certificates of deposit | 5,000,000 | 2,368,000 |
| Short-term securities, at cost which approximates market | 25,065,482 | 30,468,081 |
| Accounts receivable, less reserve | 3,792,508 | 4,256,190 |
| Inventories, at cost: | | |
| Tax paid | 628,514 | 788,627 |
| In bond | 7,797,904 | 7,183,564 |
| Other assets | 1,349,176 | 817,118 |
| | 44,809,814 | 46,633,725 |
| Current liabilities | 6,566,076 | 6,760,402 |
| Net assets as reported by Buckingham | 38,243,738 | 39,873,323 |
| Less—Elimination of accumulated intercompany profits in consolidated inventories | 235,388 | 260,672 |
| Net assets as included in Schenley's balance sheet | $38,008,350 | $39,612,651 |
| Included in the above balance sheet are the following assets located in England and Scotland: | | |
| Cash | $ 172,656 | $ 117,109 |
| Inventories of bulk scotch whiskies | 6,465,349 | 6,472,273 |
| Investment in foreign security, at cost (market quotation $1,209,222 at August 31, 1967 and $1,511,528 at May 31, 1968) | 779,117 | 779,117 |
| | $ 7,417,122 | $ 7,368,499 |

A1266

Exhibit II

## SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES

## THE BUCKINGHAM CORPORATION

### CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS

| | Fiscal Years Ended August 31 | | | Nine Months Ended May 31 | |
|---|---|---|---|---|---|
| **Statement of Income** | **1965** | **1966** | **1967** | **1967** | **1968** |
| Revenue: | | | | | |
| Net sales | $42,187,463 | $46,739,294 | $50,890,917 | $39,010,302 | $41,661,499 |
| Interest income—net | 846,327 | 988,012 | 1,366,183 | 1,051,909 | 1,007,225 |
| | 43,033,790 | 47,727,306 | 52,257,100 | 40,062,211 | 42,668,724 |
| Costs and Expenses: | | | | | |
| Cost of goods sold | 28,300,772 | 31,723,513 | 34,302,743 | 26,730,483 | 27,629,216 |
| Selling, delivery and administrative expenses | 3,483,852 | 4,061,773 | 3,364,103 | 2,388,807 | 3,435,589 |
| | 31,784,624 | 35,785,286 | 37,666,846 | 29,119,290 | 31,064,805 |
| Provision for Federal taxes on income | 5,660,000 | 5,732,000 | 7,073,000 | 5,322,001 | 5,578,000 |
| Net income as reported by Buckingham | 5,589,166 | 6,210,020 | 7,517,254 | 5,620,920 | 6,025,919 |
| Less—Elimination of increase (decrease) in inter-company profits in consolidated inventories | 101,243 | (29,976) | 164,121 | (71,267) | 13,315 |
| | 5,487,923 | 6,239,996 | 7,353,133 | 5,692,187 | 6,012,604 |
| Less—Minority interest in net income | 2,597,822 | 2,953,831 | 3,480,758 | 2,694,514 | 2,852,494 |
| Net income applicable to and included in Schenley's net income for the period | $ 2,890,101 | $ 3,286,165 | $ 3,872,375 | $ 2,997,673 | $ 3,160,110 |
| **Statement of Retained Earnings** | | | | | |
| Balance beginning of period | $20,895,230 | $23,966,048 | $23,648,562 | $23,648,562 | $25,365,816 |
| Add—Net income | 5,589,166 | 6,210,020 | 7,517,254 | 5,620,920 | 6,025,919 |
| | 26,484,396 | 30,176,068 | 31,165,816 | 29,269,482 | 31,391,735 |
| Deduct—Cash dividends on common stock | 2,518,348 | 6,527,506 | 5,800,000 | 4,350,000 | 5,220,000 |
| Balance end of period | $23,966,048 | $23,648,562 | $25,365,816 | $24,919,482 | $26,171,735 |

Until 40 days after the effective date of the Registration Statement all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters.

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No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and if given or made such information and representations must not be relied upon as having been authorized by Glen Alden Corporation. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any state to any person to whom it is unlawful to make such offer in such state.

Exchange Offer to Holders
of Common Stock of

# Schenley Industries, Inc.

# Glen Alden Corporation

**$420,914,000**

**6% SINKING FUND**

**SUBORDINATED DEBENTURES**

**Due August 15, 1988**

**PROSPECTUS**

August 8, 1968

A1268 EX. 5

# INTER-OFFICE CORRESPONDENCE

TO: M. Riklis

FROM: R. A. Graham

DATE: February 6, 1967

SUBJECT: SCHENLEY INDUSTRIES

This brings up to date my thinking on SH and supercedes all previous reports on the subject. The following is divided into two parts -- Part I updates and refines the basic report, dated March 26, 1965; Part II, which is pure opinion, deals with price and financing considerations. You should on no account miss the conclusion, whose briefness is probably unparalleled in security analysis.

Included under Part I and Part II are these subsections:


| Part I | Page |
|---|---|
| 1. 1966 Review | 2 - 4 |
| 2. Sales & Marketing Trends | 5 - 15 |
| 3. Inventory Position/Production | 16 - 22 |
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| 1. Value of Schenley's Potential Bank | |
| 2. Value of Schenley's Operations | |
| 3. Price - Financing Considerations | |
| 4. Conclusion | |

A1269

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R.A. Graham

DATE: January 10, 1967

SUBJECT: SCHENLEY - 1966 REVIEW

Schenley's big comeback since fiscal 1964, when it netted $9.5 million (1965 net, $17.7 million; 1966 net, $20.5 million), must be taken with a grain of salt.

In 1966, its internal sales (excluding sales estimates for BHM for the 12 mos. ended 8/31/66) increased only $13 million, or 3% above the $419 million recorded in 1965. This increase is below the industry's 5-6% gain and substantially below that of its major competitors: DCS, 10%; HIR, 7%; BF, 12%; BJD, 9%. SH's receivables (excluding BHM) increased by almost $ 9 million, casting doubts on whether there was any real sales increase at all. There are three further clues which suggest SH's sales did not increase in 1966: 1) sales for the first half of 1966 (again excluding estmates for BHM) were down about $8 million, so that sales in the last half were up an estimated $20 million; 2) the price cutting which took place on all SH brands toward the end of the fiscal year, particularly in the N.Y. market; 3) reports from isolated control states indicate very heavy shipments in July and August tapering off to almost nothing in September.

Internal net income in 1966 (excluding BHM and Seager) was up an estimated $2.3 million over 1965. Again, I am a skeptic. First, you have a sales increase which is highly questionable -- then, you must take into account an estimated (ex BHM) increase in year-end inventories of $25.0 million.

In 1965, financial and accounting moves (consolidation with BHM, inclusion of equity in Seager's earnings, change in the actuarial assumptions relating to the pension fund, and reduced tax provisions) produced roughly $6.5 of the $8.2 million jump in net -- the balance, about $1.7 million, came from SH's internal operations.

The P & L and Balance Sheet breakdowns, below, are derived from BHM's four quarters, from 9/30/65 to 9/30/66. Closer estimates will be made when the SH 10-K (any day) and the BHM 1966 annual (mid-February) become available.

ESTIMATED
INCOME STATEMENT
Y/E 8/31/66
(in $ millions)

| | SH ALONE | INCR (DECR) FOR YR. | BHM ALONE | INCR (DECR) FOR YR. | SH CONSOL |
|---|---|---|---|---|---|
| NET SALES | 431.2 | 12.6 | 46.7 | 4.5 | 477.9 |
| CGS | 340.6 | 7.5 | 31.7 | 3.4 | 372.3 |
| GROSS PROFIT | 90.6 | 5.1 | 15.0 | 1.1 | 105.6 |
| OP. EXPS: | | | | | |
| SGA | 55.4 | (1.1) | 4.1 | .6 | 59.5 |
| INT. | 8.5 | 1.5 | .4 | .4 | 8.9 |
| OP. INC. | 26.7 | 4.7 | 10.5 | .1 | 37.2 |
| OTH. INC. - NET | (.2) | (.1) | 1.4 | .6 | 1.2 |
| PRE-TAX NET | 26.5 | 4.6 | 11.9 | .7 | 38.4 |
| FED'L. INC. TAXES | 10.9 | 2.3 | 5.7 | - | 16.6 |
| NET INC. - OPS. | 15.6 | 2.3 | 6.2 | .7 | 21.8 |
| Add: | | | | | |
| EQUITY IN SEAGER | 1.7 | .2 | | | 1.7 |
| | | | | | 23.5 |
| Deduct: | | | | | |
| MIN. INT. - BHM | | | | | 3.0 |
| NET INC. - As Reported | | | | | 20.5 |

ESTIMATED
INCOME STATEMENT
Y/E 8/31/65
(in $ millions)

| | SH ALONE | INCR (DECR) FOR YR. | BHM ALONE | INCR (DECR) FOR YR. | SH CONSOL |
|---|---|---|---|---|---|
| NET SALES | 418.6 | 12.8 | 42.2 | | 460.8 |
| CGS | 333.1 | 1.6 | 28.3 | | 361.4 |
| GROSS PROFIT | 85.5 | 11.2 | 13.9 | | 99.4 |
| OP. EXPS: | | | | | |
| SGA | 56.5 | 4.0 | 3.5 | | 60.0 |
| INT. | 7.0 | 1.5 | - | | 7.0 |
| OP. INC. | 22.0 | 5.7 | 10.4 | | 32.4 |
| OTH. INC. - NET | (.1) | (.5) | .8 | | .7 |
| PRE-TAX NET | 21.9 | 4.6 | 11.2 | | 33.1 |
| FED'L. INC. TAXES | 8.6 | .6 | 5.7 | | 14.3 |
| NET INC. - OPS. | 13.3 | 4.0 | 5.5* | | 18.8 |
| Add: | | | | | |
| EQUITY IN SEAGER | 1.5 | .4 | | | 1.5 |
| | | | | | 20.3 |
| Deduct: | | | | | |
| MIN. INT. - BHM | | | | | 2.6 |
| NET INC. - As Reported | | | | | 17.7 |

* After elimination of $101,000 inter-company profit.

A1271

RECAST BALANCE SHEETS
(in $ millions)

| | As of 8/31/66 | | | As of 8/31/65 | | |
|---|---|---|---|---|---|---|
| | SH ALONE | BHM --EST-- | SH CONSOL --ACTUAL-- | SH ALONE | BHM --EST-- | SH CONSOL --ACTUAL-- |
| TOT. INV. CAP. | 374.3 | 36.6 | 374.3 | 363.5 | 36.8 | 363.5 |
| L.T. Debt | 91.3 | - | 91.3 | 92.5 | - | 92.5 |
| Prf. | 9.6 | - | 9.6 | 9.6 | - | 9.6 |
| Common Equity | 273.4 | 36.6 | 273.4 | 261.4 | 36.8 | 261.4 |
| TOT. C.A. | 406.7 | 45.7 | 452.4 | 378.4 | 41.1 | 419.5 |
| Cash & Equiv. | 11.3 | 30.7 | 42.0 | 16.4 | 22.8 | 39.2 |
| Recs. | 94.3 | 5.0 | 99.3 | 85.7 | 4.0 | 89.7 |
| Invs. | 301.2 | 9.9 | 311.1 | 276.2 | 14.4 | 290.6 |
| TOT. C.L. | 133.4 | 10.4 | 143.8 | 116.2 | 5.5 | 121.7 |
| S.T. Debt | 76.3 | 7.7 | 84.0 | 74.4 | | 74.4 |
| Accts. Pay. & Accruals | 49.7 | 1.5 | 51.2 | 28.1 | 2.9 | 31.0 |
| Res. F.I.T. | 7.4 | 1.2 | 8.6 | 13.8 | 2.6 | 16.4 |
| W.C. | 273.3 | 35.3 | 308.6 | 262.2 | 35.6 | 297.8 |
| INVESTMENTS | 54.9 | .8 | 21.3 | 54.2 | .8 | 20.4 |
| BHM | 34.4 | | | 34.6 | | |
| Seager | 18.1 | | 18.1 | 17.1 | | 17.1 |
| Other | 2.4 | .8 | 3.2 | 2.4 | .8 | 3.2 |
| NET PLANT | 43.8 | - | 43.8 | 43.4 | | 43.4 |
| DFR. CHGS. & OTH. | 3.9 | .5 | 4.4 | 4.1 | .4 | 4.5 |
| INTANGIBLES | 2.7 | | 17.9 | 2.6 | | 17.8 |
| MISC. LIABS. | 4.5 | | 4.5 | 2.9 | | 2.9 |
| MIN. INT. | | | 17.3 | | | 17.4 |

NOTE: BHM cash position at 8/31/66 probably $ 7.7 million too high, due to trade acceptances payable at that date.

I am curious about SH's internal increase of $21.6 million in accrued liabilities in 1966. Here is the detail on SH alone (estimated) payables and accrued liabilities.

(In $ Millions)

| | 1966 | 1965 | Incr. (Decr.) 1966 Over 1965 |
|---|---|---|---|
| Payables & Accruals: | 49.7 | 28.1 | 21.6 |
| Payables Trade | 9.1 | 6.9 | 2.2 |
| Accrued Payrolls, etc. | 4.7 | 5.0 | (.3) |
| Accrued Interest | .8 | 1.5 | (.7) |
| Sundry Taxes, Incl. Excise | 18.7 | 9.7 | 9.0 |
| Sundry Accrued & Oth. Curr. Liabs. | 16.4 | 5.0 | 11.4 |

A1272

ESTIMATED
SH PRO-FORMA
(Giving Effect To Sale Of BHM)
AS OF 8/31/66
(in $ Millions)

| | SH ALONE BHM AS INV | ADJUSTMENTS | SH PRO-FORMA |
|---|---|---|---|
| TOT INV CAP | 374.3 | 15.1 | 389.4 |
| L.T. Debt | 91.3 | | 91.3 |
| Prf | 9.6 | | 9.6 |
| Common Equity | 273.4 | 16.5 (1.4) | 288.5 |
| TOT C. A. | 406.7 | 49.5 | 456.2 |
| Cash & Equiv | 11.3 | 49.5 | 60.8 |
| Recs | 94.3 | | 94.3 |
| Invs | 301.2 | | 301.2 |
| TOT C. L. | 133.4 | | 133.4 |
| S.T. Debt | 76.3 | | 76.3 |
| Accts Pay & Accruals | 49.7 | | 49.7 |
| Res F.I.T. | 7.4 | | 7.4 |
| W. C. | 273.3 | 49.5 | 322.8 |
| INVEST'S | 54.9 | (34.4) | 20.5 |
| Seager | 18.1 | | 18.1 |
| BHM | 34.4 | (34.4) | |
| Other | 2.4 | | 2.4 |
| NET PLANT | 43.8 | | 43.8 |
| DFR CHGS & OTH | 3.9 | | 3.9 |
| INTANGS | 2.7 | | 2.7 |
| MISC LIABS | 4.5 | | 4.5 |

ADJUSTMENT ASSUMPTIONS:

| | |
|---|---|
| • Sale Price BHM | $ 55.0 mil |
| Cost | 33.0 |
| SH Profit Pre-Tax | 22.0 |
| Taxes @ 25% | 5.5 |
| SH Profit After Taxes | 16.5 |
| LESS: | |
| Incr in BHM Equity From 8/31/64 - 8/31/66 (Per SH Books) | 1.4 |
| Net Incr in SH Equity | $ 15.1 mil |
| • Cash Proceeds BHM Sale | $ 55.0 mil |
| LESS: Taxes On Profit | 5.5 |
| Net SH Cash Incr | $ 49.5 mil |

A1273

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R. A. Graham

DATE: January 10, 1967

SUBJECT: SCHENLEY - SALES & MARKETING TRENDS

The distilled spirits industry has experienced successive case sales gains of 7% in 1964, 6% in 1965, and an estimated 5-6% in 1966. These results are far better than the 1956-1965 compound annual gains of 3.9%. As the table below indicates, considerable variations exist within the industry's product types. Imports, Scotch and Canadians and the white goods, Gin and Vodka, have been largely responsible for the industry's gains.

LIQUOR MKT BY TYPE
(In Thou. Cases)

| | CMPD % '61-'65 | CMPD % '56-'65 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1957 | 1955 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Blends | ----- | ----- | 27,418 | 26,955 | 26,541 | 27,210 | 27,217 | 27,734 | 27,599 | 27,668 | 30,066 |
| Straights | 3.2% | 4.8% | 26,347 | 25,965 | 24,494 | 24,140 | 23,332 | 22,471 | 22,114 | 19,344 | 16,495 |
| Bonds | ----- | ----- | 2,909 | 2,900 | 3,120 | 3,320 | 3,483 | 3,795 | 4,028 | 4,716 | 5,032 |
| Scotch | 8.9 | 9.0 | 12,135 | 10,673 | 9,585 | 9,062 | 8,228 | 7,950 | 7,296 | 6,186 | 5,136 |
| Canadian | 8.6 | 7.3 | 7,379 | 6,433 | 5,763 | 5,402 | 4,950 | 4,897 | 4,622 | 4,100 | 3,641 |
| Gin | 6.6 | 4.5 | 11,268 | 10,726 | 9,631 | 9,220 | 8,622 | 8,189 | 7,815 | 7,338 | 7,241 |
| Vodka | 9.5 | 16.3 | 10,800 | 9,728 | 8,700 | 8,156 | 7,493 | 6,869 | 6,255 | 4,911 | 2,384 |
| Rum | 10.5 | 8.1 | 2,473 | 2,247 | 2,093 | 2,049 | 1,723 | 1,502 | 1,419 | 1,204 | 1,133 |
| Cordials & Liquers | 6.8 | 7.0 | 4,701 | 4,336 | 3,985 | 3,855 | 3,545 | 3,387 | 3,066 | 2,742 | 2,387 |
| Brandy & Cognac | 7.4 | 7.4 | 3,465 | 3,158 | 2,959 | 2,748 | 2,570 | 2,423 | 2,196 | 1,973 | 1,701 |
| Bottled Cocktails | 26.0 | 18.8 | 1,428 | 339 | 655 | 630 | 613 | 423 | 336 | 271 | 255 |
| TOTAL | 4.2% | 3.9% | 110,323 | 104,334 | 97,595 | 95,861 | 89,776 | 89,640 | 86,746 | 80,453 | 75,471 |

AS A % TOTAL

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1957 | 1955 |
|---|---|---|---|---|---|---|---|---|---|
| Blends | 24.8% | 25.8% | 27.2% | 28.4% | 30.3% | 31.0% | 31.8% | 38.9% | 40.7% |
| Straights | 23.8 | 25.0 | 25.1 | 25.2 | 26.0 | 25.1 | 25.4 | 24.0 | 21.9 |
| Bonds | 2.6 | 2.9 | 3.2 | 3.5 | 3.9 | 4.2 | 4.6 | 5.9 | 6.7 |
| Scotch | 10.9 | 10.3 | 9.8 | 9.5 | 9.2 | 8.9 | 8.4 | 7.7 | 6.8 |
| Canadian | 6.7 | 6.2 | 5.9 | 5.6 | 5.5 | 5.5 | 5.3 | 5.1 | 4.8 |
| Gin | 10.1 | 10.3 | 9.9 | 9.6 | 9.6 | 9.1 | 9.0 | 9.1 | 9.6 |
| Vodka | 9.8 | 9.3 | 8.9 | 8.5 | 8.3 | 7.7 | 7.2 | 6.1 | 3.2 |
| Rum | 2.2 | 2.2 | 2.1 | 2.1 | 1.9 | 1.7 | 1.6 | 1.5 | 1.5 |
| Cordials & Liquers | 4.2 | 4.2 | 4.1 | 3.0 | 3.9 | 3.8 | 3.5 | 3.4 | 3.2 |
| Brandy & Cognac | 3.1 | 3.0 | 3.0 | 2.9 | 2.9 | 2.7 | 2.5 | 2.5 | 2.3 |
| Bottled Cocktails | 1.3 | .7 | .7 | .7 | .7 | .5 | .4 | .3 | .3 |

Although Schenley is a full line house with a number of brands in each product category, the major portion of its case sales are derived from straights and blends. Its representation in the white goods segment, Gin and Vodka, is marginal. In 1965, SH's product mix (excluding BHM) was probably as follows:

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SH

ESTIMATED LIQUOR PRODUCT MIX
1965

| PRODUCT TYPE | EST # CASES (in thousands) | AS % SH TOT CASES | EST SH SHARE OF MARKET |
|---|---|---|---|
| Straights & Bonds | 5,500 | 49.5% | 18.8% |
| Blends | 2,000 | 18.0 | 7.3 |
| Sub-Total | 7,500 | 67.5 | |
| Scotch | 800 | 7.2 | 6.6 |
| Canadian | 600 | 5.4 | 8.1 |
| All Other | 2,200 | 19.9 | |
| TOTAL | 11,100 | 100.0% | |

Figures from the 17 control states, which account for 24% of distilled industry case sales, reveal a similar pattern.

These states, in the aggregate, represent the best statistical sampling of case movement in the industry, particularly in straights and blends, where SH derives almost 65% of its total case sales. In the analysis of each product segment, which follows, two sets of numbers are used: 1) a "consensus" estimate of the national market from sources such as Business Week, Printer's Ink, Ad Age, etc.; and 2) actual figures from the control states.

ACTUAL SH PRODUCT MIX
CONTROL STATES - 1965
(in thousand cases)

| | SH CASES | % TOT SH CASES | CONTROL CASES | SH % OF CONTROL |
|---|---|---|---|---|
| Straights & Bonds | 1,235 | 52.3% | 7,358 | 16.7 |
| Blends | 527 | 22.3 | 9,219 | 5.7 |
| Scotch | 109 | 4.6 | 1,760 | 6.2 |
| Canadian | 215 | 9.1 | 1,808 | 11.9 |
| Gin | 96 | 4.1 | 2,639 | 3.6 |
| Vodka | 89 | 3.8 | 2,425 | 3.7 |
| Rum | 20 | .8 | 443 | 4.5 |
| Brandy & Cognac | 67 | 2.8 | 450 | 14.9 |
| Cordials & Liqueurs | 6 | .3 | 938 | .6 |
| Bottled Cocktails | -- | -- | 204 | -- |
| | 2,364 | 100.0% | 27,244 | 8.7 |

## STRAIGHT MARKET

Schenley has four important entries in the straight market: Ancient Age (4-6 years, 86°), the largest seller in the 6-year-old category ; the Dant brands, Olde Bourbon (4yrs, 86°) and J.W. Dant (7 yrs, 86°); Echo Spring (7 yrs, 86°) and I.W. Harper (6 yrs, 86°), not included among the national or control sales leaders. It also has a host of also-rans, including Old Charter (7-8 yrs, 86°), Old Quaker (4 yrs, 86°), and Champion.

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Schenley's principal strength in this product segment is in the 6-year and older age group, whereas the industry's largest growth over the past five years has taken place in the four-year (minimum age for straights) category. Of the national sales leaders (see table below), virtually all of the brands, except SH's, are in the four-year age group. There is one inescapable conclusion: SH has continued to gamble heavily on age as a selling factor, at a time when age has diminished in importance. The inventory and profit ramifications of this gamble will be discussed under their respective sections.

COMBINED BOND & STRAIGHT CASE SALES
BY AGE OF WHISKEY
IN CONTROL STATES - 1965
(in thousand cases)

| | 4 yr. | 5 yr. | 6 yr. | 7 yr. | 8 yr. | 9 yr. | 10 yr. | 11 yr. | 12 yr. | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| CONTROL BONDS & STS | 3,615 | 1,487 | 1,035 | 476 | 597 | 14 | 86 | - | 44 | 7,358 |
| SH BONDS & STS | 61 | 67 | 375 | 333 | 313 | 12 | 30 | - | 44 | 1,235 |
| SH % OF CONTROL | 1.7 | 4.4 | 36.2 | 69.3 | 52.4 | 86.0 | 34.8 | - | 100.0 | 16.7 |

Schenley's case sales in the straight market have been, at best, flat over the 1960-1965 period, despite a 34% increase in this product segment. Its leading straight, Ancient Age, has lost a sizeable share of the market. In 1952, this brand was the second largest-selling straight, accounting for almost 9% of the market. By 1960, it had fallen to third place -- a market share of 6%. Ancient Age now ranks fourth; its estimated market share is 5.5%.

STRAIGHT MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 26,347 | 25,965 | 24,494 | 24,140 | 23,332 | 22,471 |
| BY BRAND: | | | | | | |
| Old Crow | 2,300 | 2,225 | 2,225 | 2,200 | 2,100 | 2,100 |
| Jim Beam | 2,100 | 1,975 | 1,950 | 1,850 | 1,750 | 1,600 |
| Early Times | 1,735 | 1,575 | 1,450 | 1,400 | 1,425 | 1,200 |
| Ancient Age | 1,450 | 1,350 | 1,350 | 1,425 | 1,475 | 1,375 |
| Ten High | 1,325 | 1,400 | 1,350 | 1,300 | 1,200 | 1,000 |
| Old Taylor | 1,300 | 1,250 | 1,200 | 1,200 | 1,200 | 1,175 |
| Old Grandad | 975 | 875 | 775 | 750 | 750 | 725 |
| Bourbon Supreme | 700 | 730 | 685 | 675 | 575 | 550 |
| Old Forester | 665 | 575 | 530 | 500 | 450 | 425 |
| J W. Dant | 600 | 650 | 625 | 625 | 550 | 500 |
| Ky Gentleman | 725 | 750 | 800 | 850 | 800 | 700 |
| Echo Spring | 600 | 625 | 650 | 675 | 700 | 700 |
| Old Hickory | 525 | 550 | 600 | 675 | 750 | 775 |

PERFORMANCE OF LEADING STRAIGHTS
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL CONTROL | 6,798 | 6,545 | 6,208 | 5,972 | 5,753 | 5,707 |
| % U.S. Sts. | 25.8 | 25.2 | 25.3 | 24.8 | 24.7 | 25.4 |
| BY BRAND: | | | | | | |
| Old Crow | 508 | 450 | 416 | 403 | 354 | 345 |
| Bourbon Supreme | 479 | 465 | 446 | 414 | 360 | 326 |
| Beam | 384 | 351 | 330 | 328 | 319 | 321 |
| Early Times | 269 | 190 | 212 | 211 | 204 | 208 |
| Canada Dry | 254 | 211 | 150 | 115 | 103 | 88 |
| Ky Gentleman | 248 | 298 | 321 | 287 | 265 | 264 |
| Echo Spring | 212 | 222 | 251 | 267 | 259 | 223 |
| Olde Bourbon-Dant | 201 | 191 | 188 | 181 | 191 | 169 |
| Old Taylor | 200 | 176 | 164 | 141 | 120 | 125 |
| Ancient Age | 190 | 214 | 220 | 208 | 201 | 216 |
| Ten High | 189 | 181 | 191 | 176 | 150 | 91 |
| Old Hickory | 155 | 151 | 188 | 233 | 289 | 351 |
| Bellows Club | 136 | 145 | 153 | 163 | 161 | 172 |
| Mattingly Moore | 112 | 104 | 86 | 17 | NA | NA |
| Old Quaker | 106 | 118 | 138 | 154 | 177 | 187 |
| Champion | 102 | 113 | 96 | 69 | 54 | 50 |
| SH - Leading Sts. Composite | 811 | 858 | 893 | 879 | 882 | 845 |

## BLEND MARKET

In the 1960-1965 period, total case sales of blends remained almost static, so that the blend share of the overall liquor market decreased significantly (from a 31% share in 1960 to 24.8% in 1965). Sales patterns of individual brands, however, have varied considerably. The DCS brands, Seagram's 7; Calvert Extra; Kessler; Four Roses, as a group, have grown by almost 700,000 cases in 1960-1965, increasing their share of the overall blend market. DCS now controls almost 50% of the blend market. It has gained ground at the expense of the other blend marketers by refashioning its major brands, and heavy ad expenditures. Its sucess with Calvert Extra is,

of course, the most noteworthy. In an effort to arrest a long-term sales decline for Calvert Reserve, DCS replaced this brand, in early 1963, with Calvert Extra, promoting a soft whiskey theme. Sales of Calvert Extra are currently estimated above 2 million cases, compared with 1.3 million cases the last full year (1962) Calvert Reserve was on the market.

Schenley has only one important blend, Schenley Reserve (65% GNS, 86°), and many marginal ones, including Melrose Rare, Park & Tilford Reserve, Three Feathers (65% GNS, 86°), and Golden Wedding (65% GNS, 86°).

Schenley Reserve is the marketing disaster of the entire distilling industry. In 1955, Reserve sold about an estimated 2.5 million cases, compared to 1.25 million currently. Actual figures from the control states, comprising 33% of all U.S. blend case sales, confirm this trend: Reserve sold 556,000 cases in 1956 -- 303,000 cases in 1965.

BLENDED WHISKEY MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 27,418 | 26,955 | 26,547 | 27,210 | 27,217 | 27,734 |
| BY BRAND: | | | | | | |
| Seagram's 7 | 7,400 | 7,350 | 7,300 | 7,350 | 7,250 | 7,200 |
| Imperial | 2,200 | 2,200 | 2,225 | 2,250 | 2,200 | 2,250 |
| Calvert Extra | 2,020 | 1,600 | 1,100 | 1,300 | 1,675 | 1,800 |
| Kessler | 1,250 | 1,200 | 1,200 | 1,025 | 975 | 950 |
| Four Roses | 1,200 | 1,050 | 1,000 | 1,050 | 1,175 | 1,250 |
| Fleischmann Prf. | 1,275 | 1,325 | 1,300 | 1,350 | 1,350 | 1,400 |
| Schenley Reserve | 1,250 | 1,350 | 1,500 | 1,575 | 1,675 | 1,800 |
| Corby's Reserve | 1,175 | 1,200 | 1,225 | 1,275 | 1,300 | 1,500 |

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PERFORMANCE OF LEADING BLENDS
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL CONTROL | 9,143 | 9,012 | 8,847 | 8,987 | 8,901 | 9,233 |
| % U.S. Blends | 33.2 | 33.4 | 33.3 | 33.0 | 32.8 | 33.3 |
| BY BRAND: | | | | | | |
| Seagram's 7 | 2,245 | 2,224 | 2,222 | 2,287 | 2,242 | 2,304 |
| Kessler | 869 | 797 | 721 | 687 | 633 | 618 |
| Imperial | 810 | 805 | 786 | 785 | 759 | 772 |
| Calvert Extra* | 609 | 577 | 534 | 497 | 525 | 562 |
| Corby's | 576 | 601 | 636 | 679 | 697 | 756 |
| Four Roses | 401 | 361 | 301 | 312 | 319 | 330 |
| Governors Club | 350 | 319 | 290 | 267 | 241 | 230 |
| Schenley Reserve | 303 | 318 | 346 | 378 | 455 | 473 |
| Hallers Reserve | 297 | 267 | 240 | 206 | 148 | 62 |
| Fleischmann Pref. | 243 | 251 | 253 | 244 | 240 | 231 |
| Carstairs | 200 | 229 | 265 | 264 | 259 | 272 |
| OMB Rocking Chair | 166 | 163 | 164 | 173 | 171 | 154 |
| Town Club | 142 | 150 | 166 | 172 | 163 | 164 |
| P M | 137 | 158 | 192 | 217 | 229 | 262 |
| Paul Jones | 104 | 112 | 118 | 143 | 181 | 193 |

* Sls in 1963 - Calvert Extra & Calvert Reserve combined; prior to 1963, all Calvert Reserve.

## SCOTCH MARKET

The most important development in Scotch over the past five years has been the emergence of a price market, represented by bulk brands (distilled in Scotland, but bottled in the U.S.). This, in turn has forced a shakeout among many of the leading bottled-in-Scotland brands, culminating in the severe price cuts of 1966. To date, all of the leading 10-15 Scotch brands, except J & B, Johnnie Walker, and Chivas Regal, have apparently been affected by the price pressures. The bulks, which retail at $1.50 - $2.00 below the prestige, in-glass brands, i.e. bottled in Scotland, now account for an estimated 22% of the market, up from 4-5% in 1959-60.

The price differential between the in-glass varieties and bulks results, in a large measure, from the federal government's method of taxation. Scotch (and Canadian) whiskey imported in bottles are taxed at the rate of $10.50 per gallon, on a wine gallon basis, as if they were 100°, although almost all such whiskey is bottled at the popular drinking level of 86°. Bulk Scotch (and Canadians), imported in barrels of 100° or more, are taxed on a proof gallon basis ($10.50 at 100°), then cut with water to 86° or 80° when bottled in the U.S. The table below illustrates the federal and state tax differential.

FEDERAL TAX STRUCTURE
In-Glass Vs. Bulks

| | Fed'l Tax Per Gall. | Import Duty Per Gall. | Total Taxes Per Gall. | Total Taxes Per Fifth |
|---|---|---|---|---|
| 86° In-Glass | 10.50 | 1.02 | 11.52 | 2.31 |
| 86° Bulk | 9.03 | .88 | 9.91 | 1.98 |
| 80° Bulk | 8.40 | .82 | 9.22 | 1.84 |

In addition to the immediate tax advantage, the price edge of bulks also reflects lower shipping costs, lower purchase prices (the 1965 Scotch price increase applied to bottled goods, but not bulk), and lower advertising costs. Five years ago, bulk was a negligible market factor; Scotch was virtually a one-price product. These figures detail what has happened.

SCOTCH IMPORTS
(in thousands)

| | In-Glass (wine galls.) | EST Equivalent Cases - 5ths | Bulk (tax galls.) | EST Equivalent Cases - 5ths | Tot Cases Imported | Bulk As % Of Tot Imports |
|---|---|---|---|---|---|---|
| 1965 | 25,140 | 10,500 | 6,054 | 3,000 | 13,500 | 22.2% |
| 1964 | 22,622 | 9,450 | 4,800 | 2,380 | 11,830 | 20.1 |
| 1963 | 22,186 | 9,250 | 2,977 | 1,480 | 10,730 | 13.8 |
| 1962 | 21,729 | 9,050 | 2,145 | 1,060 | 10,110 | 10.5 |
| 1961 | 20,171 | 8,400 | 1,388 | 695 | 9,095 | 7.7 |
| 1960 | 19,364 | 8,060 | 1,049 | 525 | 8,585 | 6.1 |
| 1959 | 17,676 | 7,300 | 657 | 328 | 7,628 | 4.3 |

NOTE: Above figures relate to imports only, and not consumption, and therefore do not tie in exactly with the table on Scotch Cases Sold on page 5. In calculating the equivalent cases, I have assumed the bulk imports have been bottled at an average of 83°, which may make for a small statistical discrepancy.

SCOTCH MARKET
BY PRICE CLASSES
(In %)

| CLASS | RETAIL PRICE RANGE | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|---|
| C | Under $4.14 | -- | -- | -- | -- |
| B | $4.15 - $4.65 | -- | -- | -- | -- |
| A | $4.65 - $5.50 | 21.5 | 19.8 | 11.6 | 7.2 |
| A - Prime | $5.51 - $6.65 | 6.1 | 8.7 | 13.5 | 14.6 |
| AA | $6.66 - $7.60 | 68.2 | 67.4 | 71.6 | 74.7 |
| AA - Prime | Over $7.60 | 4.2 | 4.1 | 3.3 | 3.5 |

NOTE: Based on sales of high volume brands in Control States.

Without Cutty, Schenley is only a small factor in the Scotch market, with an estimated 6-7% share in 1965.

SH has done a good job with Dewars in the 1960-1965 period. Its sales growth is in line with the 9% annual compound growth rate achieved by the Scotch segment of the market. Stimulated by price cuts in 1966 (in the New York market, Dewars is now available almost everywhere at $5.95 per fifth), the brand sold an estimated 900,000 cases -- 200,000 more than in 1965.

The tables below present comparative data on Scotch case sales. The control market is not a valid sampling of the national market, as it represents only 14.5% of the total Scotch market, against 24% of total distilled spirits case sales. Although Cutty shows up well in the control states, it should be borne in mind that the brand has typically been strong outside the prime Scotch-drinking markets (New York, California and Illinois). With J & B, the reverse is true, and in time, it can be expected to close the gap in the less important Scotch areas.

SCOTCH MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 12,135 | 10,653 | 9,585 | 9,062 | 8,228 | 7,950 |
| BY BRAND: | | | | | | |
| Cutty | 1,400 | 1,400 | 1,300 | 1,200 | 1,000 | 650 |
| J & B | 1,400 | 1,250 | 1,100 | 1,000 | 600 | 400 |
| Johnnie Walker | 825 | 700 | 600 | 550 | 550 | 550 |
| Black & White | 760 | 665 | 700 | 750 | 775 | 800 |
| Ballantine | 790 | 650 | 650 | 700 | 750 | 750 |
| Dewars | 700 | 625 | 575 | 550 | 550 | 525 |

PERFORMANCE OF LEADING SCOTCHES
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOT CONTROL | 1,761 | 1,556 | 1,357 | 1,258 | 1,147 | 1,111 |
| % U.S. SCOTCH | 14.5 | 14.6 | 14.2 | 13.9 | 13.9 | 13.9 |
| BY BRAND: | | | | | | |
| Cutty | 289 | 254 | 208 | 184 | 153 | 130 |
| J & B | 137 | 109 | 85 | 60 | 34 | 15 |
| Johnnie Walker | 121 | 102 | 90 | 84 | 81 | 81 |
| Black & White | 115 | 122 | 129 | 144 | 160 | 165 |
| Dewars | 76 | NA | NA | NA | NA | NA |

## CANADIAN MARKET

Together, Canadian Club & V.O. account for 73% of the total market and better than 90% of the bottled-in-Canada portion. Expansion of the Canadian market in the 1960-1965 period has been stimulated by the introduction of bulk brands - a price market. In 1960, bulk Canadian was a negligible factor; by 1965, it accounted for almost 1.5 million cases, or almost 20% of the market (in the control states, bulk Canadian accounted for more than 30% of total case sales). Despite the emergence of bulks in the Canadian market, the traditional sales leaders, C.C. & V.O. have scored impressive case sales gains (a combined increase of 8% in 1965 over 1964) at firm prices. This is contrary to the experience of the Scotch market. To begin with, there are only two in-glass Canadians of any consequence, whereas there are about 10-15 important in-glass Scotch brands competing for shelf space. Both in-glass Canadians are in strong demand, whereas there are a number of weak-sisters among the leading Scotch brands -- hence, the price-cutting which has taken place to offset inroads being made by the bulks.

SH has two entries in the Canadian market, O.F.C., an in-glass Canadian that comes in various ages and proofs (most of its sales are in 6 yr., 86°) and Mac Naughton's, a bulk (6 yr., 86.8°). O.F.C. probably occupies third place among in-glass Canadians, with case sales in the 150,000 range. As in-

dicated in the control figures, Mac Naughton's has done extremely well -- this is particularly true when you consider it retails $0.50 to $1.00 higher than most of the new bulks, which, like Windsor (acquired by National Distillers in 1965), are in the 4 year, 80° category.

CANADIAN MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 7,379 | 6,473 | 5,766 | 5,402 | 4,951 | 4,897 |
| BY BRAND: | | | | | | |
| Seagram's V.O. | 2,750 | 2,600 | 2,500 | 2,450 | 2,275 | 2,300 |
| Canadian Club | 2,650 | 2,400 | 2,325 | 2,250 | 2,100 | 2,050 |

PERFORMANCE OF LEADING CANADIANS
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOT CONTROL | 1,808 | 1,505 | 1,299 | 1,217 | 1,114 | 1,136 |
| AS % U.S.Canadians | 24.5 | 23.2 | 22.6 | 22.6 | 22.5 | 23.2 |
| BY BRAND: | | | | | | |
| Canadian Club | 615 | 557 | 511 | 495 | 463 | 468 |
| V. O. | 545 | 493 | 461 | 464 | 444 | 455 |
| McNaughtons | 190 | 157 | 125 | 77 | 53 | 61 |
| Windsor | 123 | 19 | - | - | - | - |

## GIN MARKET

SH's position in the total Gin market is extremely marginal. None of its brands rank among the national or control sales leaders. Principal SH Gins include: Domestic - Gibson's 80°, Melrose 90°, Park & Tilford 90°, Schenley 90°; Imported - Coates Plymouth Gin 89.9° - 94.4°.

GIN MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 11,268 | 10,727 | 9,633 | 9,220 | 8,622 | 8,188 |
| BY BRAND: | | | | | | |
| Gordon's | 2,200 | 2,025 | 1,900 | 1,775 | 1,675 | 1,600 |
| Gilbey's | 1,775 | 1,750 | 1,675 | 1,650 | 1,650 | 1,600 |
| Fleischmann's | 1,250 | 1,225 | 1,175 | 1,175 | 1,150 | 1,050 |
| Seagram's | 950 | 830 | 750 | 750 | 800 | 800 |
| Beefeater | 750 | 675 | 500 | - | - | - |

PERFORMANCE OF LEADING GINS
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOT CONTROL | 2,643 | 2,484 | 2,247 | 2,141 | 2,016 | 1,969 |
| % U.S. Gin | 22.6 | 23.2 | 23.4 | 23.2 | 23.4 | 24.0 |
| BY BRAND: | | | | | | |
| Gordon's | 461 | 437 | 407 | 382 | 347 | 348 |
| Gilbey's | 416 | 404 | 384 | 376 | 364 | 358 |
| Seagram s | 287 | 267 | 238 | 222 | 210 | 216 |
| Fleischmann's | 217 | 214 | 218 | 215 | 214 | 210 |
| H. Walker | 151 | 156 | 150 | 148 | 149 | 146 |
| Beefeater | 117 | 106 | [illegible] | 66 | 51 | 32 |

## VODKA MARKET

Schenley has no meaningful share of the Vodka market, either. Its principal entry is Samovar, sold in both 80 and 100 proof. The usual Schenley brands, such as Melrose, P & T, Three Feathers and Dant are also represented.

VODKA MARKET
(in thou cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOTAL | 10,800 | 9,729 | 8,701 | 7,493 | 6,870 | 6,257 |
| BY BRAND: | | | | | | |
| Smirnoff | 2,500 | 2,250 | 2,150 | 2,050 | 1,975 | 1,900 |

PERFORMANCE OF LEADING VODKAS
IN CONTROL STATES
(in thousand cases)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 |
|---|---|---|---|---|---|---|
| TOT CONTROL | 2,425 | 2,143 | 1,873 | 1,767 | 1,653 | 1,606 |
| % U.S. Vodka | 22.4 | 22.0 | 21.5 | 21.6 | 22.1 | 23.4 |
| BY BRAND: | | | | | | |
| Smirnoff (80° Only) | 328 | 302 | 309 | 305 | 298 | 312 |
| Wolfschmidt | 108 | 89 | 24 | 17 | 15 | 12 |
| Fleischmann | 103 | 71 | 59 | 59 | 57 | 49 |

A1284

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R. A. Graham

DATE: January 17, 1967

SUBJECT: SCHENLEY - PRODUCTION/INVENTORY POSITION

Distilling is essentially a chemical process, involving the conversion of raw materials into finished products on a large scale. From the standpoint of production, whiskey is the distillers' major product, representing about 70% of total distilled spirits produced. The production of domestic whiskeys (blends, bonds & straights) is highly regulated. Blends generally consist of 30-40% whiskey and 70-60% grain neutral spirits. Bonds and straights are composed of 100% whiskey - in the former, whiskey is bottled at 100° (50% alcoholic content), in the latter, it must be bottled at no less than 86° to carry the straight/bourbon label. The minimum aging period for bonds and straights is 4 years. The non-whiskeys, gin and vodka, consist entirely of grain neutral spirits, and do not require any aging.

It costs approximately $0.90 - $1.00 to produce an original entry gallon of domestic whiskey. Grain neutral spirits can be produced for approximately $0.40-$0.50 per gallon. While the cost of grain is a large item in manufacturing costs, fluctuating grain prices have little effect on aggregate costs. One bushel of grain usually yields roughly 5 gallons of liquor. The aging of distilled spirits is a significant cost factor. New oak barrels (50 gallon capacity) are required in the production of domestic whiskey. The barrels cost currently $21.50, or about $0.43 per original entry gallon. Evaporation losses result from soakage of the whiskey into the barrel while it is aging. A 50 gallon barrel of whiskey can lose, at the end of four years, 11 gallons of the original amount "laid down" in it, or 22% of its volume, as a result of evaporation, leakage and soakage. As much as 38% of its original volume is lost when the whiskey becomes 8 years old. In addition to the barrel cost and evaporation losses, maintenance of extensive warehousing facilities is also a cost consideration in the aging process.

Production costs of imported whiskey are lower than U. S. whiskeys. Scotch is similar to U. S. blends, containing 60-80% neutral grain spirits. The GNS content of Scotch is not spelled out on the label, as is required of domestic blends. There is also no comparable requirement that Scotch be produced in new barrels. The Canadian whiskeys, considered blends by our standards, are also believed to be cheaper to produce than U.S. counterparts.

The table below provides an indication of domestic distilling costs:

EST. DISTILLER
COSTS PER ORIGINAL PROOF GALL.
At Various Years

| | Tot. Cum. Cost Per O. P. G. | Cum. Costs Per O.P.G. ex Evaporation | Storage, Ins., Taxes, Etc. | Imputed Interest @ 6% | Cum.* Evaporation Costs |
|---|---|---|---|---|---|
| At Production | $1.00 | | | | |
| 1 Year | 1.24 | 1.13 | .07 | .06 | .11 |
| 2 Yr. | 1.47 | 1.26 | .07 | .064 | .21 |
| 3 Yr. | 1.71 | 1.40 | .07 | .067 | .31 |
| 4 Yr. | 1.98 | 1.54 | .07 | .071 | .44 |
| 5 Yr. | 2.28 | 1.69 | .07 | .076 | .59 |
| 6 Yr. | 2.63 | 1.84 | .07 | .081 | .79 |
| 7 Yr. | 3.00 | 2.00 | .07 | .085 | 1.00 |
| 8 Yr. | 3.50 | 2.16 | .07 | .090 | 1.34 |
| 9 Yr. | 4.02 | 2.33 | .07 | .095 | 1.69 |
| 10 Yr. | 4.64 | 2.50 | .07 | .102 | 2.14 |
| 11 Yr. | 5.35 | 2.68 | .07 | .107 | 2.67 |
| 12 Yr. | 6.20 | 2.86 | .07 | .114 | 3.34 |

* Based on I.R.S. Schedule

EST. DISTILLER
COSTS OF DOMESTIC WHISKEY
At Various Ages - Per Case of 5ths

| TYPE | 4 yrs. | 5 yrs. | 6 yrs. | 7 yrs. | 8 yrs. | 10 yrs. |
|---|---|---|---|---|---|---|
| Bonds | $31.70 | $32.45 | $33.25 | $34.15 | $35.35 | $37.95 |
| Straights: | | | | | | |
| 90° | 28.73 | 29.35 | 30.13 | 30.93 | 31.98 | 34.43 |
| 86° | 27.51 | 28.12 | 28.84 | 29.62 | 30.62 | 33.02 |
| Blends: | | | | | | |
| 65% - 90° | 27.40 | | | | | |
| 60% - 86° | 26.96 | | | | | |
| 65% - 86° | 26.27 | | | | | |
| 70% - 86° | 26.11 | | | | | |

NOTE: Est. costs include Federal Taxes and rectification taxes for blends. Bottling costs estimated at $1.75 per case in bonds and straights and $2.00 per case (bottling and blending) for blends. Direct production and carrying charges are converted at the appropriate year from the above table. Interest costs are calculated on 100% of the inventory, although among the majors, total debt generally runs 50% of inventories. In blends, it is assumed that 4-year-old whiskey is used; this is essentially a minimum figure: costs could conceivably range $1.00 per case higher, in each category, if older whiskeys were used.

The distilling industry, by its very nature - the inherent need to guess demand a minimum of four years in advance - is inclined to overproduce. And there are large profit penalties associated with over-estimating inventory needs. Assume, for example, a distiller develops excess 6-year old stocks and is required to "dump" the excess in 4-year old brands. The penalty, as represented by two years of aging costs and no compensating yield in the market place, can wipe out most of the gross profit on the excess stocks. Schenley, because of its concentration in the higher age group in bonds and straights, must work on 6-year minimum estimates.

Schenley's management has overproduced consistently since the Korean War. At the beginning of the war, Schenley believed that consumers would drain the available liquor supply while diversion of alcohol to war uses would cause the same sort of whiskey shortage that prevailed through most of World War II. To take advantage of this situation, Schenley produced an enormous amount of whiskey. Shortages never materialized and by 1958, under the then current tax laws, Schenley was threatened with paying a tax of $10.50 per gallon for all whiskey when it reached 8 years old (1950-1951 production years) whether bottled or held in its warehouses. At the time of the Forand legislation in 1958 (spearheaded by Schenley), which extended the tax free shelter of inventories of whiskey in bonded warehouses from 8 to 20 years, Schenley, according to testimony furnished to the Senate Finance Committee, held 40 million gallons of eight-year-old whiskey, as much as [illegible]% of the U.S. supply.

Inventory reports released by the state of Kentucky, where 56% of the entire U.S. whiskey stock is held, provide some excellent clues about SH's current production, as well as the size and age of its stocks. The tables on the next page present data on Kentucky inventories. At August 31, 1966, SH held the largest stock of whiskey in Kentucky, accounting for 22% of the state's total. Its stock is significantly larger than National Distillers (DR), although the latter has a larger share of the straight market. The table relating to the composition of SH's inventories in Kentucky further indicates its heavy committment in the higher age groups.

A1287

DISTILLED SPIRITS INVENTORIES*
IN KENTUCKY 1960-1966
(bbls. in thousands)

| | DCS** | | | | DR | | | | SH | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prod. | With. | Y/E Invs. | % Ind. | Prod. | With. | Y/E Invs. | % Ind. | Prod. | With. | Y/E Invs. | % Ind. |
| 1966x | 153 | 169 | 1,330 | 15.4 | 281 | 278 | 1,549 | 17.9 | 210 | 150 | 1,904 | 22.0 |
| 1965 | 200 | 278 | 1,346 | 15.7 | 382 | 360 | 1,546 | 18.0 | 351 | 246 | 1,833 | 21.4 |
| 1964 | 268 | 207 | 1,448 | 17.1 | 374 | 420 | 1,525 | 17.9 | 270 | 417 | 1,699 | 20.0 |
| 1963 | 170 | 123 | 1,382 | 15.9 | 438 | 404 | 1,570 | 18.1 | 212 | 383 | 1,779 | 20.5 |
| 1962 | 206 | 86 | 1,323 | 15.1 | 373 | 411 | 1,551 | 17.7 | 274 | 361 | 1,887 | 21.5 |
| 1961 | 326 | 79 | 1,189 | 13.6 | 453 | 413 | 1,586 | 18.0 | 277 | 299 | 1,936 | 22.0 |
| 1960 | | | 916 | 10.9 | | | 1,553 | 18.6 | | | 1,914 | 22.9 |

SOURCE: Department of Revenue, Commonwealth of Kentucky.

x 1966 figures are for the 8 mos. ended 8/31/66.

* Production - Withdrawal numbers include a small amount of whiskey shipped into Ky. Withdrawals are principally tax paid. These numbers do not tie in exactly with Y/E inventories.

** Includes Lotus Warehouses, an affiliate, from 1960 on.

INVENTORIES OF WHISKEY - KENTUCKY
BY AGE
(Bbls. in Thousands)

| | Over 8 Yrs | 8 Yrs | 7 Yrs | 6 Yrs | 5 Yrs | 4 Yrs | 3 Yrs | 2 Yrs | 1 Yr | Curr Prod | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1966 (8/31) | | | | | | | | | | | |
| Tot Ind Bbls | 214 | 374 | 464 | 759 | 984 | 1,107 | 1,030 | 1,148 | 1,451 | 1,134 | 8,664 |
| SH Bbls | 115 | 192 | 147 | 228 | 202 | 146 | 136 | 221 | 318 | 201 | 1,904 |
| SH % Ind | 54.0 | 51.5 | 31.6 | 30.0 | 20.6 | 13.4 | 13.2 | 19.2 | 21.8 | 17.6 | 22.0 |
| 1965 | | | | | | | | | | | |
| Tot Ind Bbls | 342 | 448 | 565 | 924 | 1,247 | 1,200 | 1,068 | 1,237 | 1,542 | | 8,573 |
| SH Bbls | 168 | 227 | 168 | 236 | 208 | 145 | 136 | 216 | 329 | | 1,832 |
| SH % Ind | 49.0 | 50.5 | 29.8 | 25.6 | 16.7 | 11.4 | 12.7 | 17.5 | 21.4 | | 21.4 |
| 1964 | | | | | | | | | | | |
| Tot Ind Bbls | 264 | 320 | 581 | 836 | 1,405 | 1,477 | 1,204 | 1,126 | 1,326 | | 8,508 |
| SH Bbls | 122 | 159 | 278 | 184 | 236 | 201 | 145 | 138 | 236 | | 1,699 |
| SH % Ind | 46.3 | 49.6 | 48.0 | 22.8 | 16.8 | 13.6 | 12.1 | 12.3 | 17.8 | | 20.0 |
| 1963 | | | | | | | | | | | |
| Tot Ind Bbls | 288 | 285 | 458 | 730 | 1,234 | 1,705 | 1,474 | 1,250 | 1,239 | | 8,664 |
| SH Bbls | 138 | 164 | 232 | 280 | 201 | 234 | 194 | 165 | 162 | | 1,779 |
| SH % Ind | 48.4 | 57.5 | 50.6 | 38.8 | 16.2 | 13.7 | 13.1 | 13.2 | 13.1 | | 20.5 |
| 1962 | | | | | | | | | | | |
| Tot Ind Bbls | 246 | 308 | 360 | 599 | 1,130 | 1,515 | 1,719 | 1,532 | 1,379 | | 8,787 |
| SH Bbls | 106 | 183 | 191 | 256 | 314 | 205 | 219 | 221 | 193 | | 1,887 |
| SH % Ind | 43.0 | 59.5 | 53.0 | 42.6 | 27.8 | 13.2 | 12.7 | 14.4 | 14.0 | | 21.5 |
| 1961 | | | | | | | | | | | |
| Tot Ind Bbls | 244 | 235 | 366 | 480 | 1,046 | 1,377 | 1,539 | 1,817 | 1,679 | | 8,783 |
| SH Bbls | 172 | 173 | 202 | 208 | 267 | 284 | 210 | 259 | 262 | | 1,936 |
| SH % Ind | 70.6 | 31.1 | 55.4 | 43.5 | 25.6 | 20.6 | 13.6 | 14.3 | 15.6 | | 22.0 |
| 1960 | | | | | | | | | | | |
| Tot Ind Bbls | 147 | 228 | 333 | 508 | 840 | 1,399 | 1,394 | 1,603 | 1,922 | | 8,373 |
| SH Bbls | 89 | 135 | 128 | 238 | 229 | 267 | 281 | 253 | 283 | | 1,914 |
| SH % Ind | 60.6 | 59.2 | 38.4 | 47.6 | 27.3 | 19.1 | 20.8 | 15.8 | 14.7 | | 22.9 |

SOURCE: Department of Revenue, Commonwealth of Kentucky.

Although the Kentucky information on SH is limited - I don't know the quantity and age structure of SH's whiskey inventories in its other major producing states (Pennsylvania & Indiana) - it points to a phenomenal excess of stock over demand. At 12/31/65, SH's whiskey stocks six years and older (in Kentucky alone) represented almost 13 million cases, about 3-4x current needs -- determined as follows:

| | + 8 yrs | 8 yrs | 7 yrs | 6 yrs |
|---|---|---|---|---|
| SH Ky Bbls (thous) | 168 | 227 | 168 | 236 |
| NET ENTRY* Galls per Bbl | 30x | 31 | 33 | 35 |
| TOT NET ENTRY Galls (thous) | 5,000 | 7,050 | 5,550 | 8,300 |
| Conversion Rate to Wine Galls° | 1.16x | 1.16 | 1.16 | 1.16 |
| TOT WINE GALLS (thous) | 5,800 | 18,200 | 6,450 | 9,650 |
| Conversion Rate to Cases^Y | ÷2.4 | 2.4 | 2.4 | 2.4 |
| TOT CASES (thous) | 2,420 | 3,420 | 2,700 | 4,000 |

* Original Entry Gallons (50) less shrinkage per IRS Schedule.

° Assume barrelled at 100°, then cut to 86° at bottling.

Y 2 2/5 Gallons per Case of 5ths.

By pricing out SH's Kentucky inventories - in accordance with the table on page 17 (EST. DISTILLER COSTS PER OPG) - you arrive at a total of $155 mil. To the extent that this sum includes imputed interest (which is expensed out), it is above SH's book inventories. Nonetheless, this $155 million is some $60-75 million above SH's marketing needs. And remember, this applies only to SH Kentucky whiskey inventory.

This is one way of pointing out SH's excess inventory position. There are many more obvious ways. Look, for example, at National Distillers (probably the major company most similar to SH in product mix). At 12/31/65, DR had bulk whiskey inventories of $97 million - its liquor sales in 1965 were $470 million. Compare this to SH's 1966 year-end bulk inventories of $273 million (ex BHM) and sales of $431 million. (Also look at the comparative industry table on page 34.)

No matter how you look at it, Schenley's total inventories are, at minimum, $100 million above current needs and considerably more, when you consider the profitability of its brands.

ACCOUNTING ASPECTS - INVENTORY

SH (Arthur Andersen) prices its bulk whiskies by type of whiskey and date of production, and by seasons - spring and fall. All domestic bulk whiskies 4 years or older at 12/31/64 are carried at average cost within type and age categories. All domestic bulk whiskies produced after December 31, 1964 are carried at actual cost, for the season in which produced. Warehouse, insurance and barrel costs, applicable to whiskey and spirits held for aging, are included in inventory as they accrue.

The inventory accounting procedures of the major distillers (except Hiram Walker) are similar. DCS and DR (both Price Waterhouse), however, use a LIFO method when whiskey is withdrawn for sale - the difference, as I see it, between LIFO and average cost, considering the uniformity of production costs in each season, or year for that matter, is unimportant. Hiram Walker (also P. W.) follows the most conservative accounting policy by pricing its inventories at not exceeding manufactured cost, and by expensing all storage costs (barrels, warehousing, insurance, etc.) as they accrue to current operations, thereby holding the specific cost to the original entry figure. This method is so conservative the IRS has a case against Hiram Walker for $26 million in back taxes for the 1958-1962 period.

What variations exist among the major distillers, in inventory valuation, relate to practice, not accounting concepts. And this kind of information is unobtainable. Let me state some suspicions about Schenley. The dollar value of Schenley's inventories has a great growth record: in the past two years alone, inventories are up $40 million (excluding BHM).

(in $ Millions)

| | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales* | 191.2E | 187.6E | 168.5 | 161.9 | 138.4 | 175.5 | 167.9 | 194.4 | 199.4 |
| Cost of Goods Sold* | 100.6E | 102.0E | 94.2 | 91.2 | 67.7 | 97.0 | 103.2 | 101.5 | 108.4 |
| Inventories | 301.2 | 276.2 | 259.7 | 255.9 | 259.7 | 246.2 | 251.8 | 245.0 | 217.4 |

NOTE: All figures exclude Buckingham.

* Net of Federal Excise Taxes.

Why? Here's my speculation. A small part is due to increased production. By far, the major part has to do with excess whiskey stocks in the 6-year and older category, which Schenley has no demand for. Instead of "dumping" its older stocks in its younger brands, SH has used younger stocks, which are equally available for delivery, for younger brands (artificially affecting its profits by choosing particular units for delivery). The aging costs have continued to mount on its old stocks, without P & L effect.

Maybe my speculation is true, maybe it isn't - I am convinced, however, there is enough truth to it, and too many potential dollars involved (maybe equal to the $40 million increase in inventories in the past two years), to dismiss it lightly.

A1291

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R. A. Graham

DATE: January 21, 1967

SUBJECT: SCHENLEY - ADVERTISING

Advertising expenses are a variable component of the industry's cost structure. The "Big Four's" expenditures (DCS, HIR, DR & SH) ranged from approximately $1.50 - $2.50 per case in 1965. These figures include measured media (principally magazines, newspapers, and outdoor) and unmeasured estimates (mostly point-of-purchase, production costs related to measured expenditures, and errors in the measured media estimates).

Although Schenley's ad expenditures have been cut back from the $30 million range in 1958 to an estimated $22 million in 1965, its expenditures remain among the highest in the industry, per case ($2.00) and as a percentage of net sales (11.4%). One reason for its high expenditures: SH has too many brands with relatively small case sales to support, compared to the big 2 million-plus brands marketed by the others in the "Big Four".

SH AD EXPENDITURES
(In $ Millions)

| | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 |
|---|---|---|---|---|---|---|---|---|
| Est. Tot. Adv. | $21.9 | $21.9 | $23.3 | $23.0 | $23.0 | $24.6 | $25.8 | $29.8 |
| Unmeasured | 10.9 | 8.8 | 9.9 | 11.1 | 11.3 | 11.0 | 10.5 | 16.0 |
| Measured | 11.0 | 13.1 | 13.4 | 11.9 | 11.7 | 13.6 | 15.4 | 13.8 |

MULTIPLE SOURCES: Including Measured: Leading National Advertisers; Media Records, Inc.; Radio Advertising Bureau, Inc.; Institute of Outdoor Advertising. Unmeasured: Ad Age.

NOTE: Figures exclude BHM.

You cannot fault SH on the amount of money it spends for advertising - you can fault the Company on the quality and effectiveness of its expenditures. As indicated in the sales section of this report,

most of Schenley's brands have lost share of market in their respective product categories (Dewars, Mac Naughton's, and possibly one or two others are the exceptions). And sales results are the only way to judge the sucess of any advertising.

Most of SH's brands are now handled by its own in-house agency, Kleppner Company. Over the years, Schenley has been in and out of a number of highly regarded agencies. In theory, if not in practice, an in-house agency is a lot less independent than an outside one. And in Schenley's case, it probably puts the Company's creative direction more firmly in the hands of the one man who makes all of its decisions.

Each product type in the distilling industry has its own set of economics - and the amount of advertising by type varies accordingly. The imports, Scotch and Canadian, carry the largest gross margins and spend the most ad dollars per case; the white goods, Gin & Vodka, with the smallest gross margins, spend the least.

DISTILLING INDUSTRY
ADVERTISING EXPENDITURES
BY SELECTED PRODUCT TYPES
IN MEASURED MEDIA
(expenditures in $ mil; P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | $129.3 | $107.7 | $100.4 | $ 96.5 |
| PER CASE | $1.17 | $1.03 | $1.03 | $1.01 |
| BY PRODUCT TYPE: | | | | |
| Straights | 29.1 | 26.5 | 26.4 | 26.7 |
| P/C | 1.11 | 1.02 | 1.08 | 1.11 |
| Blends | 27.1 | 23.8 | 22.5 | 20.7 |
| P/C | .99 | .89 | .85 | .77 |
| Scotch | 23.0 | 18.4 | 15.2 | 14.3 |
| P/C | 1.92 | 1.73 | 1.59 | 1.58 |
| Canadian | 12.1 | 11.2 | 9.6 | 8.5 |
| P/C | 1.64 | 1.73 | 1.66 | 1.58 |
| Gin | 9.6 | 6.8 | 6.7 | 6.7 |
| P/C | .86 | .63 | .70 | .73 |
| Vodka | 6.2 | 5.6 | 4.9 | 5.6 |
| P/C | .58 | .58 | .57 | .75 |

The following tables on measured media expenditures, per case, by product type, are included for reference. (Remember, actual ad expenditures are substantially higher, since they include the unmeasured portion.)

A1293

STRAIGHT
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | $29.1 | $26.5 | $26.4 | $26.7 |
| PER CASE* | $1.11 | $1.02 | $1.08 | $1.11 |
| BY BRAND: | | | | |
| Old Crow | 3.6 | 3.3 | 3.0 | 3.3 |
| P/C | 1.56 | 1.47 | 1.34 | 1.52 |
| Beam | 1.3 | 1.3 | 1.2 | 1.0 |
| P/C | .62 | .66 | .62 | .56 |
| Early Times | 2.3 | 2.2 | 2.4 | 2.7 |
| P/C | 1.35 | 1.36 | 1.65 | 1.90 |
| Anc Age | 1.7 | 2.0 | 1.9 | 1.8 |
| P/C | 1.13 | 1.47 | 1.39 | 1.23 |
| Ten High | .8 | .8 | .6 | .7 |
| P/C | .63 | .54 | .46 | .51 |
| Old Taylor | 2.2 | 2.2 | 2.2 | 2.2 |
| P/C | 1.69 | 1.74 | 1.85 | 1.80 |
| Old Grand-Dad | 2.5 | 2.4 | 2.5 | 2.5 |
| P/C | 2.50 | 2.79 | 3.22 | 3.33 |
| Bourbon Supreme | .2 | .1 | .1 | .3 |
| P/C | .29 | .14 | .18 | .49 |
| Old Forester | 2.3 | 1.8 | 1.9 | 1.9 |
| P/C | 3.29 | 3.14 | 3.54 | 3.72 |
| Dant | .6 | .7 | .6 | .7 |
| P/C | 1.00 | 1.00 | 1.03 | 1.16 |
| Ky Gentleman | .2 | .2 | .2 | .2 |
| P/C | .29 | .27 | .29 | .22 |
| Echo Spring | .2 | .3 | .3 | .5 |
| P/C | .33 | .50 | .49 | .70 |
| Old Hickory | .6 | .4 | .4 | .3 |
| P/C | 1.20 | .79 | .70 | .45 |

* Excludes expenditures for bonds, except for an undetermined amount of combination straight and bond advertising.

A1294

BLENDED WHISKEY
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | $27.1 | $23.8 | $22.5 | $20.7 |
| PER CASE | $.99 | $.89 | $.85 | $ .76 |
| BY BRAND: | | | | |
| Seagram's 7 | 7.3 | 6.7 | 6.7 | 6.4 |
| P/C | .99 | .91 | .91 | .87 |
| Imperial | 1.7 | 1.6 | 1.6 | 1.6 |
| P/C | .77 | .74 | .74 | .71 |
| Cal Extra* | 4.8 | 5.1 | 4.6 | 2.7 |
| P/C | 2.40 | 3.20 | 4.20 | 2.08 |
| Kessler | 1.0 | 1.0 | .9 | .7 |
| P/C | .80 | .83 | .75 | .69 |
| Four Roses | 3.3 | 2.5 | 2.2 | 2.2 |
| P/C | 3.00 | 2.38 | 2.20 | 2.10 |
| Fleischmann Prf. | 1.0 | 1.1 | .9 | 1.1 |
| P/C | .77 | .81 | .72 | .82 |
| 'Sh Reserve | 1.4 | 1.6 | 1.7 | 1.7 |
| P/C | 1.08 | 1.19 | 1.12 | 1.10 |
| Corby's Reserve | .8 | .5 | .3 | .3 |
| P/C | .67 | .43 | .22 | .20 |

* Reflects large introductory campaign for Calvert Extra and includes Calvert Reserve totals prior to 1963.

SCOTCH
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | $23.0 | $18.4 | $15.2 | $14.3 |
| PER CASE | $1.92 | $1.73 | $1.59 | $1.58 |
| BY BRAND: | | | | |
| Cutty Sark | 1.4 | 1.2 | 1.3 | 1.9 |
| P/C | 1.00 | .86 | 1.00 | 1.58 |
| J & B | 1.6 | 1.0 | .8 | .7 |
| P/C | 1.14 | .80 | .73 | .70 |
| Johnny Walker | 2.8 | 2.3 | 2.0 | 1.6 |
| P/C | 3.38 | 3.30 | 3.30 | 2.90 |
| Black & White | 1.6 | 1.7 | 1.5 | .9 |
| P/C | 2.00 | 2.56 | 2.14 | 1.20 |
| Ballantine | 1.3 | 1.2 | 1.5 | .9 |
| P/C | 1.63 | 1.84 | 2.30 | 1.29 |
| Dewars | 1.0 | 1.1 | .8 | .7 |
| P/C | 1.43 | 1.76 | 1.39 | 1.28 |

A1295

CANADIAN
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL INDUSTRY | $12.1 | $11.2 | $9.6 | $8.5 |
| PER CASE | $1.64 | $1.73 | $1.66 | $1.58 |
| VO | 4.4 | 4.1 | 4.1 | 3.9 |
| P/C | 1.57 | 1.58 | 1.64 | 1.59 |
| C.C. | 4.1 | 4.0 | 3.9 | 3.9 |
| P/C | 1.52 | 1.67 | 1.68 | 1.73 |

GIN
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | $9.6 | $6.8 | $6.7 | $6.7 |
| PER CASE | $.86 | $.63 | $.70 | $.73 |
| BY BRAND: | | | | |
| Gordon's | 2.0 | 1.8 | 1.8 | 1.8 |
| P/C | .91 | .87 | .93 | 1.00 |
| Gilbey's | 1.6 | 1.4 | 1.5 | 1.4 |
| P/C | .89 | .80 | .88 | .87 |
| Fleischmann's | .8 | .6 | .5 | .6 |
| P/C | .62 | .52 | .43 | .50 |
| Seagram's | 1.5 | 1.2 | 1.6 | 1.5 |
| P/C | 1.50 | 1.43 | 2.12 | 2.04 |
| Beefeater | 1.0 | .6 | .5 | .5 |
| P/C | 1.25 | .90 | .98 | - |

VODKA
AD EXPENDITURES
IN MEASURED MEDIA
(expenditures in $ mil;
P/C in $)

| | 1965 | 1964 | 1963 | 1962 |
|---|---|---|---|---|
| TOTAL | 6.2 | 5.6 | 4.9 | 5.6 |
| PER CASE | .58 | .58 | .57 | .75 |
| BY BRAND: | | | | |
| Smirnoff | 3.8 | 3.3 | 2.8 | 2.8 |
| P/C | 1.52 | 1.47 | 1.29 | 1.39 |

A1296

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R. A. Graham

DATE: January 31, 1967

SUBJECT: SCHENLEY - SOURCE OF PROFITS

Given case sales, production costs, advertising expenditures, and gross yield per case (as determined by the New York State F.O.B. price to wholesalers), it is possible to develop a working estimate on how both the industry and Schenley make their money.

ESTIMATED PROFITS-WHISKEY ONLY
By Type & Price Category
-1965-

| | | CASES SOLD (Thous) | N.Y. STATE* F.O.B. PRICES (per case of 5ths) | GROSS MARGIN PER CASE | PRE-TAX PROFITS PER CASE | TOT PRE-TAX PROFITS-Whiskey (in $ millions) | % WHISKEY PROFITS |
|---|---|---|---|---|---|---|---|
| IMPORTS: | | | | | | | |
| Canadian | -in glass | 5,919 | $47.00 | $17.00 | $11.00 | $65.0 | |
| | -bulk | 1,460 | $33.00-40.00 | $ 7.00-12.00 | $ 6.00 | 8.8 | |
| TOT CANADIAN | | 7,379 | | | | 73.8 | 26.8 |
| Scotch | -in glass | 9,965 | $44.00+ | $ 8.00-12.00 | $ 6.00 | $60.0 | |
| | -bulk | 2,170 | $33.00-40.00 | $ 5.00- 7.00 | $ 3.00 | 6.5 | |
| TOT SCOTCH | | 12,135 | | | | 66.5 | 24.2 |
| TOTAL IMPORTS | | 19,514 | | | | $140.3 | 51.0 |
| DOMESTIC WHISKEY: | | | | | | | |
| Bonds | -low-medium priced | 1,709 | $34.00-37.00 | $ 2.00- 5.00 | $ 2.00 | $ 3.4 | |
| | -high priced | 1,200 | $45.00+ | $12.00-19.00 | $12.00+ | 14.4 | |
| | | 2,909 | | | | 17.8 | 6.5 |
| Sts | -low priced | 10,000 | below $32.00 | $ 2.50 | $ 1.00 | $10.0 | |
| | -medium priced | 11,800 | $32.00-37.00 | $ 4.50-10.00 | $ 3.00 | 35.4 | |
| | -high priced | 4,547 | $37.00+ | $10.00-15.50 | $ 6.00 | 27.2 | |
| | | 26,347 | | | | 72.6 | 26.4 |
| Blends | -low priced | 2,742 | below $29.75 | $ 2.00 | 0 | 0 | |
| | -medium priced | 11,776 | $29.75-33.00 | $ 3.00 | $ 1.00 | $11.8 | |
| | -high priced | 12,900 | $33.00+ | $ 5.00 | $ 2.50 | 32.2 | |
| | | 27,418 | | | | 44.0 | 16.0 |
| TOT DOMESTIC WHISKEY | | 56,674 | | | | $134.4 | 49.0 |
| GRAND TOTAL | | 76,188 | | | | $274.7 | 100.0% |

* Includes Federal Excise taxes & import duties where applicable; excludes all state taxes.

NOTE: Cases Sold - Price mix developed from Control State figures.
N.Y. State F.O.B. Prices - Source: State Liquor Authority.
Gross Margin Per Case - Imports: Canadian manufactured costs estimated from HIR and DCS (Canadian only) reports. Scotch: purchased costs estimated from PJB and BHM reports.
Domestic Whiskey - costs estimated per table on page 17.

Whiskey - both domestic and imported - accounts for about 70% of the distilling industry's case sales and an estimated 80-90% of its pre-tax profits. (The non-whiskeys, Gin and Vodka, and the specialties, provide the balance.) Although the table above is chock-full of esti-

mates, it illustrates the profitability of each whiskey product type. The imports, Scotch and Canadian, are far more profitable than the domestic varieties: imports represent slightly more than 25% of total whiskey case sales, yet account for better than 50% of pre-tax profits. Canadians, despite a lower gross yield per case, are even more profitable, as a product type, than Scotch, because they carry a double profit (manufacturing as well as marketing), whereas virtually all of the Scotch is purchased from external sources. Among the domestic types, Straights and Bonds, combined, are twice as profitable as the Blends.

The implications of this to Schenley will be seen in the following review of the profitability of each product type. There are, however, a few general conclusions that I'd like to get out of the way.

1) Gross yield per case bears no essential relation to production costs. To take the two extremes in profit rank, in-glass Canadians are probably less expensive to produce than U.S. Blends, yet command a typical $14-$17 per case gross yield advantage ($7-$11 advantage after federal and import duties).

2) The difference between one brand and another brand, within product types, is largely the price at which it sells. Consumer Reports has conducted a number of tests with professional tasters, only to conclude that all the tested brands, within each product type, were roughly equal in quality. In its most recent study (February, 1967), Consumer Reports went a step further, comparing two different types, Canadian and Blends. Their conclusion: "All the products were judged both good and remarkably similar to each other in quality and character, though the prices shoppers paid for them ranged from $3.99 a fifth to $8.80."

3) Gross yield is the principal determinant of the industry's profit structure. Although advertising and other selling, general and administrative expenses vary, both as to product type and from company to company, these expenses are of much less consequence to the bottom line than the price obtained for the product.

Now for a word about the methodology used in evaluating the profitability of the SH brands. The New York State F.O.B. prices are used where possible, since they are affirmed as the lowest F.O.B. prices to wholesalers in the U.S. Production costs are based on the table on page 17; and it is assumed that 4-year-old stocks are used for 4-year-old brands, 5-year stocks for 5-year brands, etc. The resulting gross profit per case is a figure I have a good deal of confidence in. The measured media estimates are also relatively accurate. When you get into the unmeasured advertising estimates, and other SGA expenses, the trouble begins, since allocations on a brand-by-brand basis are impossible. I have arbitrarily allocated $2.75 per case, on a straight line basis, for S, G & A expenses (other than measured media) and have added this amount to the measured expenditures. This allocation conforms closely with SH's actual SGA, less measured ad expenses on the liquor portion of its business. What results is a conceptual, rather than an actual view of SH's pre-tax profits by brand.

Is the conceptual approach worth all the trouble? Yes, because it proves beyond doubt that SH makes most of its money on very few brands and that much of its effort is profitless.

STRAIGHTS & (BONDS)

As the table on the next page indicates, SH has only two "primary" brands - I.W. Harper & Ancient Age (brands which carry high gross yields and sell in quantity), - and a host of other brands with little or no meaning. In the latter category are two brands included among the national and control sales leaders, Olde Bourbon and Echo Spring.

Note the gross yield differential between Harper - a six-year brand - and Dant Charcoal Perfected - a 12-year brand. (Harper has a $7.00 per case gross advantage, despite almost $3.00 less in production costs.) This is just one way of pointing out that age does not carry any premium in the market place. Most of Schenley's straights could be categorized as "outlet" brands, i.e. simply a means of getting its inventory out.

EST PRE-TAX PROFITS
SH STS & BONDS
-1965-

| BRAND | | (Principal Age) | EST CASE SALES (in thous) | Per Case of Fifths: N.Y. F.O.B. PRICES | PROD COSTS | GROSS PROFIT | SG & A | PRE-TAX PROFITS | EST PROFIT (in $ mil) |
|---|---|---|---|---|---|---|---|---|---|
| J.W. Harper | St | (6) | 475 | $43.00 | $28.84 | $14.16 | $6.40 | $7.76 | 3.7 |
| " " | Bond | (4) | 75 | 50.00 | 31.70 | 18.30 | 2.75 | 15.55 | 1.2 |
| TOT HARPER | | | 550 | | | | | | 4.9 |
| Anc Age | | (6) | 1,450 | 37.00 | 28.84 | 8.16 | 4.40 | 3.76 | 5.5 |
| Old Charter | | (7) | 250 | 40.00 | 29.62 | 10.38 | 7.40 | 2.98 | .8 |
| Olde Bbn-Dant | | (4) | 600 | 29.75 | 27.51 | 2.24 | 3.70 | loss | loss |
| J.W. Dant | St | (7) | 100 | 33.60 | 29.62 | 3.98 | 3.70 | 0 | marginal |
| Dant Char Perf | | (12) | 150 | 36.00 | 36.22 | (.22) | 3.70 | loss | loss |
| J.W. Dant | Bond | (4) | 300 | 36.00 | 31.70 | 4.30 | 3.70 | .60 | marginal |
| TOT DANT | | | 1,150 | | | | | | |
| Echo Spring | | (7) | 600 | 33.00 | 29.62 | 3.38 | 3.20 | .18 | marginal |
| Champion | | (8) | 350 | 33.00 | 30.62 | 2.38 | 3.00 | loss | loss |
| Old Quaker | | (6) | 350 | 30.00 | 28.84 | 1.16 | 2.75 | loss | loss |
| Melrose #9 | | (9) | N.A. | 33.00 | 31.72 | 1.28 | 2.75 | loss | loss |
| Old Stagg | | (7) | All be- | 34.00 | 29.62 | 4.38 | 3.75 | 0 | marginal |
| Jas Pepper | | (6) | lieved | 33.00 | 28.84 | 4.76 | 3.25 | 1.51 | NA |
| Old Ky Tavern | | (8) | to be under 100,000 cases | 39.00 | 30.62 | 7.38 | 2.75 | 4.63 | NA |

As far as the industry is concerned, the most profitable Straights are: Early Times (4 yrs - Brown-Forman), with over 1.7 million cases at gross yield of $37.00 per case; Old Taylor (4 yrs - Nat'l. Distillers), 1.3 million cases at a gross yield of $40.00 per case; Old Grand-Dad (4 yrs - also Nat'l. Distillers), 1 million cases at $43.50 per case and Old Forrester (4 yrs - Brown-Forman), 665,000 cases at $42.00 per case. The high volume, popularly priced brands ($34.00 per case) Old Crow (4 yrs - Nat'l.) and Jim Beam (4 yrs) are also extremely profitable. Although it's possible to break out profits "conceptually" on all of the major Straights, it is not particularly germane to this story.

Brown-Forman, incidentally, with essentially 3 brands (the two above and Jack Daniels), earned $20.2 million, pre-tax, in fiscal 1966, on sales of only $154 million - only $6 million less than SH pre-tax. This was accomplished with only $60 million in inventories, compared to SH's $300 million.

## BLENDS

Reserve is SH's only significant blend from a profit standpoint.

EST PRE-TAX PROFITS
SH BLENDS
-1965-

| BRAND | EST CASE SLS (in thous) | Per Case of Fifths: N.Y. F.O.B. PRICES | PROD COSTS | GROSS PROFIT | SG & A | PRE-TAX PROFITS | EST PROFIT (in $ mil) |
|---|---|---|---|---|---|---|---|
| SH Reserve | 1,250 | $33.00 | $26.27 | $6.73 | $3.98 | $2.75 | 3.4 |
| P & T Reserve | N.A. | 30.00 | 26.11 | 3.89 | 2.75 | 1.14 | NA |
| Red Satin | believed to | 30.00 | 26.11 | 3.89 | 3.75 | .14 | NA/Small |
| Three Feathers | be in the | 29.00 | 26.27 | 2.73 | 2.75 | 0 | Marginal |
| Golden Wedding | 100-250,000 | 30.00 | 26.27 | 3.73 | 2.75 | .98 | NA |
| Cream of Ky | case range | 28.60 | 24.52 | 4.08 | 3.00 | 1.08 | NA |
| Melrose Rare | | 33.00 | 29.89 | 3.11 | 3.75 | 0 | Loss |

Reserve sells in the highest price category for Blends -$33.00 per case- the same as the DCS leaders -- Seagram's 7, Calvert Extra, and Four Roses.

## SCOTCH

Dewar's is an extremely profitable brand as indicated below. Assuming Dewar's did 900,000 cases in 1966 - it probably contributed $5.5 million plus, or over 20% of SH's pre-tax net.

EST PRE-TAX PROFITS
SH SCOTCH
-1965-

| BRAND | EST CASE SLS (in thous) | Per Case of Fifths: N.Y. F.O.B. PRICES | PROD COSTS | GROSS PROFIT | SG & A | PRE-TAX PROFITS | EST PROFIT (in $ mil) |
|---|---|---|---|---|---|---|---|
| Dewars | 700 | $53.00 | $42.00 | $11.00 | $5.01 | $6.00 | 4.2 |
| Long John | NA | 44.50 | 36.25 | 8.25 | 3.75 | 4.50 | NA/Small |

Dewar's gross yield per case (F.O.B. U.K. $23.32, no taxes) is roughly on a par with J & B (F.O.B. U.K. $23.50) and Cutty (F.O.B. U.K. $22.70). However, in 1965, J & B earned about $9.50 per case, pre-tax, excluding other income; Cutty earned $8.00 per case, pre-tax also excluding other income. Dewar's lower profits per case (estimated) arises from higher ad expenditures and higher overhead absorption.

## CANADIAN

Both of SH's entries are highly profitable. O.F.C. bucks Canadian Club and V.O. (absolutely unbeatable competition) in the $47.00 per case price range. Mac Naughton's, which is the largest selling bulk Canadian, also commands the highest gross yield per case among the bulks. Its pre-tax profits per case are believed to be $3-4 higher than Windsor (80°), the second largest bulk brand, which has a gross yield of about $32.75.

EST PRE-TAX PROFITS
SH CANADIAN
-1965-

| BRAND | EST CASE SLS (in thous) | Per Case of Fifths: N.Y. F.O.B. PRICES | PROD COSTS | GROSS PROFIT | SG & A | PRE-TAX PROFITS | EST PROFIT (in $ mil) |
|---|---|---|---|---|---|---|---|
| O.F.C. | 150 | $47.00 | $32.00 | $15.00 | $5.00 | $10.00 | 1.5 |
| Mac Naughton's | 450 | 39.00 | 28.00 | 11.00 | 4.00 | 7.00 | 3.2 |

**RECAP**

SH "conceptually" earns above $23 million, pre-tax, from its primary brands in each product segment, on roughly 5 million cases -- less than half of its overall case sales. The balance of its business is, at best, marginal.

Perhaps the most important conclusion to be drawn from all of the foregoing is that, if and when we buy Schenley, the first order of the day should be a thorough profit and return on investment analysis of each brand - a job I'd be happy to apply for.

(In the process of being updated.)

## LIQUOR INDUSTRY COMPARISON
(Revised As Of 12/19/66)

ALL Figures Fiscal 1966, Unless Indicated. (Y/E)

| | | DCS (7/31) | HIR (8/31) | DR+* (12/31) | SH° (8/31) | BF (4/30) | HNL (6/30) | BTD (6/30) | PUL* (12/31) | AOC* (9/30) | GDB (6/30) | BARTON (6/30) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TOT MKT VAL | $ mil | 545.0 | 465.0 | 320.0 | 146.0 | 133.0 | 183.0 | 110.0 | 27.0 | 34.0 | 12.5 | 13.0 |
| Recent Price | $ P/Sh | 31 | 27 | 41 | 29 | 22A 17B | 36 | 42 | 6 | 34 | 12 | 6 |
| Common shs | # thou | 17,539 | 17,201 | 12,687 | 5,022 | 7,132 | 5,107 | 2,621 | 4,542 | 1,000 | 1,036 | 2,139 |
| INV CAP | $ mil | 707.0 | 296.6 | 543.2 | 374.3 | 99.8 | 75.8 | 38.6 | 84.4 | 38.7 | 46.1 | 38.8 |
| Funded Debt | $ mil | 160.7 | | 154.9 | 91.3 | 30.0 | - | 2.0 | | 9.9 | 12.5 | 20.2 |
| Prf | $ mil | | | 34.1 | 9.6 | 11.8 | 61.0 | | 3.6 | | | .2 |
| Common Equity | $ mil | 546.3 | 296.6 | 354.2 | 273.4 | 58.0 | 14.8 | 36.6 | 80.8 | 28.8 | 33.6 | 18.4 |
| TOT C.A. | $ mil | 591.7 | 282.2 | 382.8 | 452.4 | 88.0 | 70.7 | 50.0 | 96.3 | 42.1 | 48.1 | 49.1 |
| Cash & Equiv | $ mil | 29.9 | 55.9 | 82.9 | 42.[illegible] | 11.1 | 8.6 | 6.0 | 11.7 | 3.5 | 2.7 | 3.1 |
| Recs | $ mil | 165.1 | 57.9 | 112.4 | 99.3 | 16.0 | 36.0 | 12.2 | 18.7 | 15.3 | 11.9 | 19.1 |
| Invs | $ mil | 389.7 | 166.1 | 182.3 | 311.1 | 59.7 | 24.9 | 31.7 | 58.6 | 23.3 | 33.4 | 26.9 |
| TOT C.L. | $ mil | 139.3 | 72.4 | 67.6 | 143.8 | 13.6 | 41.9 | 15.4 | 46.7 | 8.9 | 8.6 | 23.3 |
| S.T. Debt | $ mil | 27.2 | 15.5 | 3.7 | 84.0 | | 1.4 | 1.0 | 38.0 | 3.5 | 2.0 | 14.7 |
| W. C. | $ mil | 452.4 | 209.8 | 315.0 | 308.6 | 74.4 | 28.8 | 34.6 | 49.5 | 33.2 | 39.5 | 25.8 |
| Investments | $ mil | 16.0 | 16.0 | 77.8 | 21.3 | | | | .1 | | .1 | 9.0 |
| Net Plant | $ mil | 267.9a | 70.8 | 170.0 | 43.8 | 16.4 | 39.3 | 3.6 | 33.6 | 4.9 | 5.1 | 3.6 |
| Dfr Exps & Oth | $ mil | 7.7 | | 3.3 | 4.4 | 6.1 | 2.5 | .5 | 1.0 | .8 | 1.4 | .4 |
| Intangibles | $ mil | | | 12.3 | 17.9 | 2.8 | 5.5 | | | .2 | | |
| Dfr Taxes & Misc. Liabs | $ mil | 20.1 | | 33.4 | 4.5 | | .3 | | | | | |
| Min Int | $ mil | 17.0 | | 1.8 | 17.9 | | | | | | | |
| Sales, incl excise | $ mil | 1,104.4 | 565.3 | 469.8 | 477.9 | 154.1 | 328.3 | 100.8 | 170.1 | 120.0E | 68.4 | 93.7 |
| Gain over 1965 | % | 10.0 | 7.0 | 9.0 | 3.0 | 12.0 | 10.0 | 9.0 | 11.0 | 6.0 | (5.5) | 7.1 |
| CMPD Incr 1961-1966 | $ mil | 6.8 | 4.7 | 1.9 | | 7.3 | | 4.1 | | 4.9z | | 6.5 |
| Pre-Tax Profit | $ mil | 78.4 | 79.4 | 39.0E | 38.4 | 20.2 | 24.8 | 14.6 | (2.0) | 5.0 | 1.4 | 3.4 |
| Pre-Tax Margin | % | 7.1 | 14.1 | 8.3E | 8.0 | 13.1 | 7.5 | 14.6 | | 4.4 | 2.1 | 3.6 |
| Tax Rate | % | 42.5 | 52.0 | 50.0E | 43.0 | 49.0 | 49.0 | 52.0 | | 44.0 | 50.0 | 48.0 |
| Net Inc '66 | $ mil | 45.1 | 38.0 | - | 20.5 | 10.3 | 12.8t | 7.0 | - | 2.9E | .6 | 1.8 |
| '65 | $ mil | 41.1 | 34.6 | 19.5 | 17.7 | 8.6 | 7.4 | 6.2 | (2.0) | 2.8 | 1.1 | 1.8 |
| '64 | $ mil | 37.6 | 32.2 | 17.0 | 9.5 | 7.7 | 5.8 | 5.8 | (.2) | 2.8 | 1.4 | 1.6 |
| '63 | $ mil | 34.3 | 29.6 | 17.8 | 9.2 | 7.0 | 5.0 | 5.9 | .4 | 2.8 | 1.2 | 1.5 |
| '62 | $ mil | 31.6 | 27.7 | 17.3 | 7.2 | 6.4 | 4.4 | 5.5 | (2.5) | 2.7 | .9 | 1.9 |
| '61 | $ mil | 30.9 | 26.4 | 18.8 | 10.0 | 4.7 | 3.8 | 4.9 | 0 | 2.5 | 1.5 | 1.8 |
| CMPD Incr 1961-1966 | % | 8.5 | 7.6 | 0.6 | 15.6 | 17.0 | | 7.4 | | 3.0 | | |
| Tot Debt % Inv | % | 48.2 | 9.3 | | 56.4 | 50.0 | 5.6 | 9.5 | 65.0 | 57.0 | 43.4 | 129.0 |
| Tot Debt % W.C. | % | 41.6 | 7.4 | | 56.9 | 40.4 | 4.9 | 8.7 | 77.0 | 40.0 | 36.8 | 135.0 |
| Rec Turns | X | 6.7 | 9.7 | - | 4.8 | 7.6 | 9.1 | 8.2 | 9.1 | 7.4 | 5.7 | 4.9 |
| W.C. Turns | X | 2.4 | 2.7 | - | 1.5 | 2.1 | 10.4 | 2.9 | 3.4 | 3.4 | 1.7 | 3.6 |
| Capital Turns | X | 1.6 | 1.9 | - | 1.3 | 1.5 | 4.3 | 2.6 | 2.0 | 2.9 | 1.5 | 2.4 |
| Current Ratio | X | 4.3 | 3.9 | 5.7 | 2.9 | 6.5 | 1.7 | 3.2 | 2.1 | 4.7 | 5.6 | 2.1 |
| W.C. Per $ Mkt | $ | .83 | .45 | .61 | 2.12 | .56 | .15 | .31 | 1.83 | .98 | 3.16 | 1.99 |
| Equity Per $ Mkt | $ | 1.00 | .64 | .68 | 1.87 | .44 | .08 | .33 | 3.00 | .85 | 2.69 | 1.41 |
| Assets Per $ Mkt | $ | 1.62 | .80 | 1.24 | 3.70 | .85 | .65 | .49 | 4.85 | 1.41 | 4.40 | 4.76 |
| Ret on Inv Cap | % | 6.4 | 12.8 | 5.8 | 5.5 | 10.3 | 16.9 | 18.2 | | 7.2 | 1.3 | 4.6 |
| Ret on Equity | % | 8.3 | 12.8 | 8.4 | 7.3 | 17.0 | 65.5 | 19.2 | | 9.7 | 1.8 | 9.5 |
| Earns P/Sh | $ | 2.57 | 2.21 | 3.00E '66 | 3.98 | 1.38 | 1.90 | 2.68 | | 2.90 | .60 | .81 |
| Cash Earns | $ | 3.42 | 2.54 | | 4.64 | 1.55 | 2.98 | 2.83 | | | .99 | .98 |
| Current Multiple | X | 12.1 | 12.2 | 13.6 | 7.3 | 12.3E | 19.0 | 15.7 | | 11.7 | 20.9 | 7.4 |

* 1965 Bal Sheet Figures.
+ Sales, Pre-Tax Net and Net Inc Estimated for Liquor Business Only.
o Includes Buckingham in 1965 & 1966 Only.
a Includes $107 million Oil & Gas Properties.
z Based Upon B (Non-Voting) Stock.
t Includes Theo. Hamm Brewing Co. in 1966 Only.

A13[illegible]

A1303

# INTER-OFFICE CORRESPONDENCE

TO: FILE

FROM: R. A. GRAHAM

DATE: February 6, 1967

SUBJECT: LONG-TERM DEBT AND RESTRICTIONS

LONG TERM DEBT SCHEDULE *

| Issue | Maturity | Outstanding At 8/31/66 | 8/31/67 | 8/31/68 | 8/31/69 | 8/31/70 |
|---|---|---|---|---|---|---|
| 3.2% | 3/31/69 | 31,875 | 26,125 | 20,375 | -- | -- |
| 5.25% | | 43,125 | 48,875 | 54,625 | -- | -- |
| | | 75,000 | 75,000 | 75,000 | -- | -- |
| 3 % | 11/1/75 | 16,250 | 15,000 | 13,750 | 12,500 | 10,500 |
| TOTAL | | 91,250 | 90,000 | 88,750 | 12,500 | 10,500 |
| REPAYMENTS | | | | | | |
| 3.2% | | | -- | -- | 17,500 | |
| 5.25% | | | -- | -- | 57,500 | |
| | | | | | 75,000 | |
| 3 % | | | 1,250 | 1,250 | 1,250 | 2,000 |
| TOTAL | | | 1,250 | 1,250 | 76,250 | 2,000 |
| CONVERSION | | | | | | |
| 3.2% to 5.25% Through Deferrals | | | 1967 | 1968 | 1969 | 1970 |
| 3.2% | | | (5,750) | (5,750) | (2,875) | |
| 5.25% | | | 5,750 | 5,750 | 2,875 | |
| | | | -- | -- | -- | |

* Assumes no prepayments and continued conversion of 3.2% to 5.25% through deferrals.

## INSTITUTIONAL HOLDERS

| 3.2% & 5.25% Notes: | Amt (in thousands) | 3% Notes: | Am (in thou |
|---|---|---|---|
| Prudential | $52,000 | New York Life | $12,0 |
| New York Life | 8,000 | John Hancock | 1,5 |
| John Hancock | 7,000 | New England Mutual | 1,5 |
| Mutual Life Ins. | 3,500 | Mutual Life Ins. | 1,1 |
| New England Mutual | 3,000 | Lincoln National | 5 |
| Lincoln National | 1,000 | Bankers Life | 3 |
| Bankers Life | 500 | Unknown | 4 |
| | 75,000 | | 17, |

# PRINCIPAL RESTRICTIONS

## CONSENT

Modifications require prior written consent of the holders of two-thirds of the principal amount of notes.

## CASH DIVIDENDS & PURCHASE OF TREASURY STOCK

The Company may not declare cash dividends or acquire its own capital stock, unless after giving effect thereto, current assets less current liabilities and long-term debt exceeds $100 million (after giving credit for 50% of repayments on long-term debt from September 1, 1958 up to a maximum of $50 million).

At August 31, 1966, working capital less long-term debt was $217.4 million, $134.3 million above its contractual requirement. (After giving pro-forma effect to the sale of BHM, Schenley is another $20 million above its requirement.)

## WORKING CAPITAL

The Company must maintain working capital less long-term debt of $65 million or $100 million in any period during which any borrowings outside the U.S. by foreign subsidiaries are outstanding, whether guaranteed or not (after giving credit for 50% of all repayments on long-term debt from September 1, 1958 on up to a maximum of $30 million). Seager Evans & Company had consolidated long-term debt of $5.5 million as of 8/31/66, and it is assumed that the $100 million restriction is applicable.

This restriction further provides that any excess over 10% of current assets represented by inventories of materials and supplies (other than raw materials, work in process or finished goods) will be excluded from the calculation of current assets. At August 31, 1966, the Company's inventories of materials and supplies was $16.6 million -- 3.7% of current assets -- and therefore, not applicable.

The effect of this restriction is believed to be identical with the restriction on cash dividends above; indicating the Company is $134.3 million above its contractual requirement (before the sale of BHM).

## ADDITIONAL INDEBTEDNESS

The Company may not create, incur, endorse, assume or suffer to exist any indebtedness for borrowed money in excess of $260 million aggregate principal amount. Prior to the modification of the indenture on June 7, 1965, the debt ceiling was $225 million.

At August 31, 1966, the Company had total borrowings of $175 million (excluding Seager which does not come under the definition of this requirement), or $85 million under its debt ceiling.

Indebtedness to the banks may not exceed the amount outstanding at September 1, 1958. At such date, the Company had a $75 million revolving credit agreement. At August 31, 1966, the Company had notes payable-short-term of $82.7 million, including BHK trade acceptances -- indicating clearly SH is up to its maximum in bank borrowings under existing indenture restrictions.

OTHER FINANCIAL RESTRICTIONS

The Company may not create, assume or let exist any mortgages or similar liens on fixed assets in excess of 75% of the lesser of the cost or fair value of the fixed assets at the time of acquisition. Furthermore, the aggregate principal amount of mortgage or similar debt shall not exceed 15% of current assets less current liabilities and long-term debt. At 8/31/66, the Company had no mortgages outstanding.

Total borrowings of subsidiaries made prior to the respective dates they become subsidiaries may not exceed $15 million.

MERGER CONSOLIDATION

The Company may not merge or consolidate with any other corporation or sell or otherwise dispose of its assets as a whole without consent.

BANK LINES

In April 1963, the Company arranged an open line of credit, replacing its revolving credit agreement for $75 million.

Although details on the open line banks are not known, it is believed that the list resembles closely SH's former revolving credit banks.

| Former Revolving Credit Banks | Amount of Commitment (in thousands) |
|---|---|
| Marine Midland | $10,000 |
| Bank of America | 17,000 |
| First National Bank of Chicago | 13,500 |
| Continental Illinois | 7,500 |
| Hanover Bank | 5,000 |
| National Bank of Detroit | 5,000 |
| Security-First National Bank - L.A. | 5,000 |
| American Trust Company - S.F. | 2,250 |
| Harris Trust | 2,250 |
| Peoples First National Bank | 2,250 |
| Philadelphia National Bank | 1,500 |
| Fifth Third Union Trust Co. | 1,250 |
| Central Trust Company - Cincinnati | 1,000 |
| Federation Bank | 1,000 |
| Liberty National Bank - Louisville | 500 |
| Total Commitment | 75,000 |

A1306

# INTER-OFFICE CORRESPONDENCE

TO: M. Riklis

FROM: R. A. Graham

DATE: February 6, 1967

SUBJECT: SCHENLEY INDUSTRIES - PART II
PURE OPINION

Now we're going to play a constructive game based upon the combined facts, estimates and guesses developed in Part I. There are three simple rules to the game:

- Schenley's inventories are $100 million above current marketing needs.

- At least one-third of Schenley business generates little or no return and can be eliminated without affecting profits. This could free another $50 million in inventory (on top of the $100 million existing imbalance) as well as one-third of its receivables -- roughly $30 million.

- Schenley's existing indebtedness will remain status quo, or can be refunded in identical amounts. (While this is an obvious oversimplification, let it stand for the time being, as it does not affect value considerations.)

The object of the game is to evaluate Schenley separately as a potential bank and as an operating company.

AS OF 8/31/66
(in $ millions)

| | ESTIMATED SH P SO-FROM (Giving Effect To Sale of BOW) | ELIMINATIONS OF EXCESS ASSETS | SH AS A BANK | SH AS AN OP. COMPANY | TTLS |
|---|---|---|---|---|---|
| TOT. FIN. CAP. | 349.4 | (225.0) | 225.0 | [illegible] | |
| L.T. Debt | 91.3 | | - | 91.3 | |
| Pref | 9.6 | | - | 9.6 | |
| Common Equity | 288.5 | (225.0) | 225.0 | 63.5 | |
| TOT C.A. | 496.2 | (225.0) | | 231.2 | |
| Cash & Equiv | 60.8 | (45.0) | | 15.8 | |
| Recs | 94.3 | (30.0) | | 64.3 | |
| Invs | 301.2 | (150.0) | | 151.2 | |
| TOT C.L. | 133.4 | ——— | - | 133.4 | |
| S.T. Debt | 76.3 | | | 76.3 | |
| Accts Pay & Accruals | 49.7 | | | 49.7 | |
| Rec F.I.T. | 7.4 | | | 7.4 | |
| W. C. | 322.8 | (225.0) | 225.0 | 97.8 | |
| INVESTS | 23.5 | ——— | - | 22.5 | |
| Seager | 18.1 | | | 18.1 | |
| Other | 2.4 | | | 2.4 | |
| NET PLANT | 43.6 | | | 43.6 | |
| DFR CHGS & OTH | 3.9 | | | 3.9 | |
| INTANGS | 2.7 | | | 2.7 | |
| TOTAL | | | | | |
| MISC LIABS | 4.5 | | | 4.5 | |

VALUE OF SH AS A BANK

The critical elements involved in evaluating SH's potential bank of $225 million are 1) realizable value - what kind of net losses (after tax credits) would result from the contraction, and 2) timing - how long would it take to eliminate the excess assets.

Here's my opinion (and logic). Whatever losses exist relate to Schenley's excess inventories - $150 million. I assume $40 million in losses (equal to the increase in inventories over the past two years), or $20 million, after tax, reducing the potential bank to $205 million. As to present value of the bank - only inventories and receivables need be discounted. I assume the excess receivables can be eliminated over a 4-year period, and the inventories over an 8-year period. Using a 6% discount rate, the $205 million realizable value becomes $165 million on a present value basis, or $33 per Schenley share. This is what I'd be willing to pay for the bank aspect of Schenley: it obviously ignores what we can do with the money.

SH's bank has two important features to us now: 1) it can pay the term debt incurred in the purchase of the controlling position and 2) it can be utilized to scale down Schenley's existing indebtedness.

VALUE OF SH AS AN OPERATION

The operating part of Schenley netted an average of $11.7 million (excluding BHM, including equity in Seager, and after preferred dividends), per year, over the past five years. In 1966, Schenley earned $16.8 million on a comparable basis. I have used five years to adjust for the "unreal" peaks achieved in fiscal 1965 and 1966. Again, remember the rules of the game - Schenley's excess assets did not generate any return.

Without any elaborate justification, Schenley's operations are worth 15x average 5-year earnings -- $175 million, or $35 per share. This again ignores what we can do with it, which, after all, is something we shouldn't be willing to pay for in the deal.

Suffice it to say I am quite bullish about what we can do with the brands (Dewar's, Mac Naughton's, I.W. Harper, Ancient Age, Reserve, O.F.C.), which constitute Schenley's hard core profitability.

* * * * * * *

My answer to the game: SH is worth $68.00 per share - cash basis -- almost $10 above its pro-forma equity per share at August 31, 1966.

If we can buy the control position for cash - 1,518,000 shares - 29% of the total outstanding (after giving effect to the conversion of the preferred stock on a 6-1 basis) and finance the balance with 20-25 year paper, there's no question in my mind that the control position is worth a premium above $68 per share.

* * * * * * *

Now we'll play another game called "how much can we afford to pay for Schenley and how do we finance it". The same rules apply as in the first game with two additions:

- GA has excess cash of $40 million.

- GA does not have any current or projected cash flow available for the Schenley transaction. In other words, Schenley's cash flow from its bank/operations must be utilized to carry and repay all obligations incurred by us in its acquisition.

PRICE - FINANCING CONSIDERATIONS

After playing with the numbers from $68 on up, I believe we can pay as much as $75 - $80 per share for Schenley. Let's see how the cash flow works out at $75 from a safety standpoint, our safety. It is assumed that the control position is purchased for cash and the balance for long-term debt (plus an equity sweetner to relate to the cash price).

To buy the control position, we need $74 million in term money (6%) on top of our $40 million investment - a total of $114 million. We should be looking for a minimum term of seven years, with no principal payments the first two years. In the calculations on the next page, I have used a straight-line amortization thereafter.

To buy the balance (3,660,000 shares), we will issue $274 million, 6% 25-year debt, with no sinking fund, for at least the first 15 years.

The table on the following page details the cash flow on a $75 price. Two sets of pre-tax earnings are used: one is based on a 5-year average, 1962-1966 ($19.5 million), plus interest on the $45 million excess cash position at 5½% ($2.5 million) - the comparable 1966 figure was $29 million; the other set assumes a modest 5%

growth rate. It is further assumed that Schenley's other sources of funds equal its uses (for example, depreciation offsets asset additions).

| | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Cash Flow - Operations Pre-Tax: | | | | | | | | | |
| 5-Year Average Earns | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | 22.0 | |
| 5% Growth Rate | 22.0 | 23.1 | 24.2 | 25.4 | 26.6 | 28.0 | 29.4 | 30.9 | |
| Carrying Charges - | | | | | | | | | |
| Term Loan | 4.4 | 4.4 | 3.5 | 2.6 | 1.7 | .8 | - | - | |
| L. T. Debt | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | 16.4 | |
| | 20.8 | 20.8 | 19.9 | 19.0 | 18.1 | 17.2 | 16.4 | 16.4 | |
| Cash Generation - Operations Pre-Tax: | | | | | | | | | |
| 5-Year Average Earns | 1.2 | 1.2 | 2.1 | 3.0 | 3.9 | 4.8 | 5.6 | 5.6 | 27.4 |
| 5% Growth Rate | 1.2 | 2.3 | 4.3 | 6.4 | 8.5 | 10.8 | 13.0 | 14.5 | 61.0 |
| Cash Generation - Net of Taxes, which are adjusted for debt discount* | | | | | | | | | |
| 5-Year Average Earns | 1.4 | 1.4 | 1.9 | 2.4 | 2.8 | 3.3 | 3.7 | 3.7 | 20.6 |
| 5% Growth Rate | 1.4 | 2.0 | 3.0 | 4.1 | 5.1 | 6.3 | 7.4 | 8.1 | 37.4 |
| Elimination of Excess Assets: | | | | | | | | | |
| Cash | 45.0 | - | - | - | - | - | - | - | 45.0 |
| Receivables | 5.0 | 5.0 | 10.0 | 10.0 | - | - | - | - | 30.0 |
| Inventories** | 5.0 | 10.0 | 10.0 | 15.0 | 15.0 | 20.0 | 20.0 | 35.0 | 130.0 |
| Repayments: | | | | | | | | | |
| Term Loan | - | - | 14.8 | 14.8 | 14.8 | 14.8 | 14.8 | - | 74.0 |
| L. T. Debt | - | - | - | - | - | - | - | - | |
| Cash Reservoir, includes net profits - operations, net of debt repayments: | | | | | | | | | |
| 5-Year Average Earns | 56.4 | 72.8 | 79.9 | 92.5 | 95.5 | 104.0 | 112.9 | 151.6 | |
| 5% Growth Rate | 56.4 | 73.4 | 81.6 | 95.9 | 101.2 | 112.7 | 125.3 | 168.4 | |

* It is assumed that the Long Term Debt is valued at 85% of par. The resulting debt discount (non-cash charges) of approximately $43 million, or $1.7 million per year, has been taken into account.

** Net of losses.

NOTE: The above figures exclude Seager & Evans. The comparable 1966 pre-tax figure was $29 million, calculated as follows: $26.5 million, SH alone, pre-tax net (page 3), plus interest on $45 million excess cash arising from BHM sale at 5½% or $2.5 million. Cash reservoir excludes pro-forma operating cash of almost $16 million.

Although the return on our investment ($40 million) is low for the first 3-4 years on a $75 price, without performing any miracles, i.e. a 5% growth rate, we can generate $37.4 million in cash from operations, after all carrying charges - almost a 100% cash return. If earnings remained flat over the entire period, we would generate $20.6 million in cash, a 50% cash return.

Schenley's contribution to GA's net, under the above assumptions, would vary from the cash basis outlined above with respect to debt discount (negative) and inclusion of equity in Seager's equity (positive). If you take the assumed 1968 figures, Schenley would have reported a net loss of $500,000, before a pick-up of $1.7 million in Seager profits (actual 1966 figures for

Seager). Whatever inventory losses result (netted in the above table) will cut into GA's reported profits. (If book reserves are established initially to offset inventory losses - a step I recommend - such losses will not affect reported profits.) In short, we cannot expect any meaningful contribution by SH to GA's reported net until the debt is scaled down and the inventory is cleaned up. Cash return, however, is the all-important yardstick and that looks good.

At the end of 1975, we could conceivably have a cash reservoir of $152 - $169 million.

** ** ** ** **

All of Schenley's existing long-term indebtedness, including the current portion - $92.5 million - matures by 1975, including $75 million in 1969. Add to this its open-line credit of $75.0 million, which, I assume, is subject to annual renewals, and you have a total of $167.5 million to be refinanced and/or extended. Without refinancing, or extension, particularly on the long-term debt held by Prudential and others which is due in 1969, the deal is not do-able within the confines of the projected Schenley cash reservoir.

Based on the projected cash reservoir (after giving effect to the repayment of the term loan - $74 million), I believe we can pay down half of the existing SH indebtedness ($80 million in round numbers) over an 8-10 year period, and still have a good margin of safety. The table below details a $10 million annual repayment over the next 8 years.

(In $ Millions)

| | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|
| Cash Reservoir, includes net profits - operations, net of term loan repayments: | | | | | | | | |
| 5-Year Average Earns | 56.4 | 72.8 | 79.9 | 92.5 | 95.5 | 104.0 | 112.9 | 151.6 |
| 5% Growth Rate | 56.4 | 73.4 | 81.6 | 95.9 | 101.2 | 112.7 | 125.3 | 168.4 |
| Add: Interest Savings, Net of Taxes On Existing Debt Repayments* | .3 | .5 | .8 | 1.0 | 1.3 | 1.5 | 1.8 | 2.0 |
| Cash Reservoir, as adjusted: | | | | | | | | |
| 5-Year Average Earns | 56.7 | 73.6 | 81.5 | 95.1 | 99.4 | 109.4 | 120.1 | 160.8 |
| 5% Growth Rate | 56.7 | 74.2 | 83.2 | 98.5 | 105.1 | 118.1 | 132.5 | 177.6 |
| Repayments On Existing Debt | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Cash Reservoir, After Repayments On Existing Debt: | | | | | | | | |
| 5-Year Average Earns | 46.7 | 53.6 | 51.5 | 55.1 | 49.4 | 49.4 | 50.1 | 80.8 |
| 5% Growth Rate | 46.7 | 54.2 | 53.2 | 58.5 | 55.1 | 58.0 | 62.5 | 97.6 |

* Calculated at 5%, less related taxes.

**CONCLUSION:** Let's buy it.

Plaintiffs' Exhibit 6

A1311

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

MOLLIE H. SANDERS,

Plaintiff,

-against-

MESHULAM RIKLIS, ISIDORE A. BECKER, DAVID BUNIM, FRANK BURNSIDE, RALPH E. CASE, PATRICK J. CLIFFORD, MAURICE GOODMAN, LUTHER H. HODGES, JOHN W. HUMPHREY, WENTWORTH P. JOHNSON, PAUL A. JOHNSTON, SOL KITTAY, LEONARD C. LANE, NATHANIEL LAPKIN, SAMUEL J. LEVY, AUSTIN LIST, CHARLES F. McKHANN, M. LESTER MENDELL, GILBERT H. PERKINS, BERT R. PRALL, CARL M. SINGER, HARRY H. WACHTEL, McCRORY CORPORATION, RAPID-AMERICAN CORPORATION and GLEN ALDEN CORPORATION,

Defendants.

AFFIDAVIT

STATE OF NEW YORK, )
: SS.:
COUNTY OF NEW YORK, )

ALAN C. GREENBERG, being duly sworn, deposes and says:

I am now and have been a partner of Bear, Stearns & Co., investment bankers, for the last ten years. I have been in charge of the Bear, Stearns Arbitrage Department for fifteen years. Prior to that I worked in the Foreign Department of Bear, Stearns & Co. I attended Missouri University, receiving a B. S. Degree in Business Administration.

My staff and I have reviewed the affidavit of Philip Jones dated April 23, 1968, the Glen Alden Preliminary Prospectus dated April 9, 1968, the P. Lorillard Co.

Registration Statement dated April 19, 1968, various financial statistical services, and other financial services generally available to the financial community and considered to be reliable.

Our review has convinced us that Plaintiff misconstrues the Glen Alden offer for Schenley both in terms of the value offered by Glen Alden to Schenley and in terms of the value represented by Schenley.

It is our conclusion, supported herein, that

1. the value of the Glen Alden offer to Schenley is approximately $80-85 per share, not $110 as Plaintiff contends;

2. the value of the contemporaneous P.Lorillard Co. offers were approximately $78-79 and $88-90, and this provides independent confirmation of Glen Alden's evaluation of Schenley;

3. the premium over Schenley's market price and the premium over Schenley's book value represented by the Glen Alden offer is not excessive when compared with other tender offers;

4. Glen Alden's evaluation of Schenley at $80-85 per share is a reasonable valuation in light of Schenley's earnings, book value and special balance sheet considerations; and

5. after the completion of the proposed transaction, Glen Alden can comfortably service the new debt issued to purchase Schenley and also meet the foreseeable internal capital requirements for its own operations including normal expansion.

PART I

VALUATION OF GLEN ALDEN OFFERS

On March 20th Glen Alden announced an offer for each of the outstanding shares of Schenley (prior to the 3 for 2 stock split) which consisted of:

a. $20 in cash

b. $60 par value of a 6%, 20-year subordinated debenture, and

c. three warrants, each for the purchase of one share of Glen Alden common stock at $15. On the day of the offer, Glen Alden common closed at $14.62 1/2.

Annexed hereto as Exhibit A is a table showing the prices and yields of a selected list of debentures that are generally comparable in quality to the proposed Glen Alden debentures. In determining the value of the Glen Alden debentures we compared them to the debentures tabulated in Exhibit A, noting both the size of the Glen Alden issue and the fact that the sinking fund for the Glen Alden debentures would begin only in the 11th year retiring 1% of the issue in that year, increasing by 1% per year through the 18th year, retiring 14% in the 19th year and leaving 50% to be retired at maturity.

In our judgment, the probable value of these debentures would be about 70% of par (or $42 for the $60 par value of debentures). This is equivalent to a current yield of 9.3% to maturity. We feel that the probable maximum current value of these bonds would be 75% of par (or $45), equivalent to a current yield of 8% and a yield to maturity of 8.7%.

Exhibit B is a table showing the market valuation of outstanding warrants. The Exhibit includes all outstanding warrants with the effective exercise price between 85% and 200% of the market price of the common stock as of the date of the Exhibit. It can be seen from the Exhibit that warrants in this price range normally sell in the area of about 40-45% of the market price of the common stock. On this basis, the warrants that Glen Alden proposed to include in its March offer for Schenley were worth about $6 per warrant or $18 for the three warrants.

Thus, the total package was worth about $80-83 per share of Schenley, pre split, as follows: Bond $42-45, 3 warrants $18 and cash $20.

On April 1st, Glen Alden revised its offer. By eliminating the warrants from the package, it eliminated the potential dilution inherent in its earlier offer. The revised offer includes, for each pre split share of Schenley:

a. $10 in cash

b. $100 par value of the same 6%, 20-year debentures.

The revised offer, based on a value of 70-75% of par for the debentures, is worth $80-85 per share of Schenley as follows: Bond $70-75 and cash $10.

## PART II

## VALUATION OF LORILLARD OFFERS

In addition to valuing the two Glen Alden offers, we felt it would be relevant to value the April 1 and April 8

offers of P. Lorillard Co. As will be seen, these offers were very close in value to the Glen Alden offers and this fact independently confirms Glen Alden's evaluation of the worth of Schenley.

The offer made by P. Lorillard Co. on April 1 consisted of 0.3 shares of Lorillard common stock and $60 par value of a 30-year convertible subordinated debenture. At the time the offer was made, Lorillard was selling at $50.75.

The debentures were convertible after the second year into one share of Lorillard common for each $60 of par value. The sinking fund of 4% per year beginning in the 16th year was to retire 60% of the issue by maturity. The interest rate was 5 1/4%, with a proportionate increase in the interest as the Lorillard dividend was increased over a rate of $2.86 per share.

Annexed hereto as Exhibit C is a table showing the market valuation of outstanding convertible debentures. The Exhibit includes all convertible debentures for which the market price of the common stock was between 75% and 95% of the conversion price, with interest rates between 4 1/2% and 6 1/2% and with a total issue of at least $15 million. From this Exhibit, it can be seen that a premium in the area of 15-25% customarily obtains. The only cases of premiums substantially below this level are for the two steel companies and the two equipment leasing companies in the Exhibit. On the basis of these figures we expect that the Lorillard convertible bond would have sold at about 101%. However,

there was one unique feature in the proposed Lorillard debentures, i.e., that the interest on each $60 par value of debentures would be the greater of $3.15 (5 1/4%) or 110% of the dividend on one share of Lorillard common. (As the Lorillard common presently pays $2.75 per share, the latter figure would be $3.02 1/2 at the present time.) This unique feature would, in our judgment, have added about 5 points to the price of a security of his kind, i.e. to about 106% of par.

On this basis, we would estimate that the $60 par value of Lorillard convertible debentures in the proposed package was worth about $63-64. As 0.3 shares of Lorillard common were, at the time of the offer, worth slightly over $15, we estimate the value of the entire package to have been about $78-79 per old share of Schenley.

On April 8th Lorillard increased its offer by adding to its previous package the choice of either

a. $10 in cash, or

b. a 12-year warrant to buy 1/2 share of Lorillard common stock at $30.

As shown in Exhibit B previously referred to and as previously discussed in the evaluation of the proposed Glen Alden warrants, the expected price of the Lorillard warrants would be about 40-45% of the market value of 1/2 share of Lorillard, i.e., about $10-11. Allowing for the fact that Lorillard was then selling at a slightly lower price than in the calculation of the value above, the revised package would be worth about $88-90, as follows: 0.3 shares of common $15.00, bond $63-64 and cash or warrant $10-11.

PART III

TENDER OFFER PREMIUMS

A. Premiums Over Market Price Paid by Offerors

Annexed hereto as Exhibit D is a table showing the bid prices in tender offers made during 1966 and 1967, and we use for comparison the market price of the respective shares one month before the announcement of the tender. The one-month interval has been chosen to give prices which presumably were not influenced to any significant degree by impending bids. In cases where competitive bids arose, the relevant base price was considered to be one month before the first announcement of a tender for the shares.

Exhibit D shows that the median tender premium is about 30% above the market price a month earlier. As shown in the last column of Exhibit E annexed hereto, the premium in the Glen Alden - Schenley case is 37%. As many of the smaller premiums were in cases where the bidder was only seeking a portion of the outstanding shares, the premium in Glen Alden's bid, in our judgment, is reasonable. Exhibit F annexed hereto shows a breakdown of the successes and failures in relation to the respective premiums. It will be noted that there is no significant correlation between the premium and the success of the tender offer.

B. Premiums over Book Value Paid by Offerors

The tangible book value of the Schenley shares (before the 3:2 stock split), as calculated from the February 29, 1968 balance sheet contained in Glen Alden's Preliminary Prospectus dated April 9, 1968 and adjusted pro forma for

conversion of the outstanding convertible preferred shares, is $54.60. It should be noted that this figure includes the investments in Seager-Evans & Co. Ltd. and Buckingham Corporation at their respective book values. The current market price of the Seager-Evans shares on the London Stock Exchange is about $3 per share, which is virtually equal to book value. However, the current market price of Buckingham on the New York Stock Exchange is about $21 per share. If Schenley's investment in 52.66% of the equity in Buckingham were valued at market, this would increase Schenley's book value by $44 million, or $8 1/2 per share, i.e., to $63 per share.

In addition, the market prices of both subsidiaries are, in our judgment, affected by the fact that only a minority interest is in public hands. Exhibit G annexed hereto shows a clipping extracted from The Financial Times of London, which shows that the price-earnings multiple of British shares in the alcoholic beverage sector is generally around 18 times. At this multiple, Seager-Evans would sell for about $4 per share. In view of Buckingham's excellent growth record, its shares might well be valued at about 20 times earnings, i.e., at about $27 per share, if there were not a dominant controlling shareholder. The combined effect of the two higher theoretical values would be to add about $24 million to Schenley's book value or $4 1/2 per share, bringing it to approximately $67 1/2 per share.

Exhibit D referred to above sets forth the various tender offers made during 1966 and 1967, showing the

respective premiums over book value. Glen Alden's offer of $80 is 47% over Schenley's unadjusted book value of $54.60 and only 27% over the book value of $63 as described above. From Exhibit D it can be seen that a premium of 27-47% over book is not out of line. However, it must be noted that, as shown in Exhibit F previously referred to, there is no significant correlation between the size of the premium and failure or success of the offer. High premiums seem to be the rule in the liquor industry. Exhibit H annexed hereto is a table comparing the various tender offers made during 1966 and 1967 in the liquor industry. The three fully successful tender offers paid premiums of 200% or more over book value.

PART IV

EVALUATION OF SCHENLEY

We have considered whether the $80-85 offer of Glen Alden for Schenley shares (pre split) was a reasonable offer in terms of the value of Schenley. We considered the most widely used determinant of value, the price-earnings ratio, as well as the less meaningful determinant, the price-book value ratio.

A. Price-Earnings Evaluation

The reported earnings of Schenley for the 12 months ended February 29, 1968 were $4.12 per share on the basis of the pre split shares. Thus, the package being offered by Glen Alden capitalizes Schenley earnings at approximately 20 times. Exhibit I annexed hereto is a table showing the price/earnings ratios from 1963 to date of several leading companies in the liquor industry. On the basis of

these figures, a multiple of 20 appears to be high. The data tabulated in Exhibit I indicates that a more typical price-earnings multiple for the industry would be 15.

However, in our judgment there is a special factor in the Schenley situation that warrants the payment of a higher-than-average multiple. Schenley's net working capital (consisting of liquid assets, receivables and inventory less current liabilities) appears to be substantially in excess of its requirements. Attached hereto as Exhibit J is a table setting forth the relevant current asset statistics of the major liquor companies, and Schenley's excess is readily apparent therein.

To bring its inventories into line with the level prevailing in the industry Schenley could, over a period of 4-7 years, reduce its inventories of spirits by about 40%, i.e., about $120 million. Similarly, if receivables could be reduced by about $20 million and liquid assets could be reduced by $30 million without any material effect upon earning power, the combined effect of these items would be to reduce Glen Alden's effective cost of the purchase of Schenley by roughly 40%. As a result, the effective purchase price, after realization of excess current assets, would become only about 12 times earnings. Even if only half of the realizations prove to be feasible, an assumption that we believe to be quite conservative, the effective multiple being paid by Glen Alden would be 16 times. In our judgment, this is a reasonable price to pay for Schenley.

B. Price-Book Evaluation

As discussed in Part IIIB above, Schenley's actual

book value is $54.60 and its book value adjusted by revaluing Seager-Evans and Buckingham at market levels is $63-67 per share. The Glen Alden offer is 1.5 times actual book and 1.3 times the revalued book. Annexed hereto as Exhibit K is a table showing the historical prices and book values for the major liquor companies. The Exhibit shows that even if we exclude the high multiple that obtains for Heublein, a value 1.5 times book is very much in line.

PART V

FINANCIAL STABILITY OF GLEN ALDEN-SCHENLEY

The pro-forma capitalization giving effect to the purchase of Schenley by Glen Alden shows a long-term debt position of $675 million on an equity base of $210 million. The earnings of the Company, net after taxes and pro forma interest on the to-be-issued debt securities, is $21 million annually. However, it should be noted that these figures do not give effect to any unrealized values in the Schenley assets.

Proper analysis of the cash flow of the Company would indicate that Glen Alden can comfortably meet its debt service requirements and still provide sufficient capital for internal operations.

Of the $675 million of pro forma debt, $428 million consists of the 6% subordinated debentures due 1988 which are to be issued in the exchange with the Schenley stockholders. The sinking fund of these debentures was designed so that the repayments of principal would not impose a severe capital strain on the company. The table of repayments is as follows:

| Year | Percentage of Principal Payable | Percentage of Balance Outstanding |
|---|---|---|
| 1979 | 1% | 99% |
| 1980 | 2 | 97 |
| 1981 | 3 | 94 |
| 1982 | 4 | 90 |
| 1983 | 5 | 85 |
| 1984 | 6 | 79 |
| 1985 | 7 | 72 |
| 1986 | 8 | 64 |
| 1987 | 14 | 50 |
| 1988 | 50% | 0% |

In other words, for ten full years Glen Alden will not have to prepay any of the face amount of the debentures. Glen Alden's entire cash flow, which in pro forma 1967 would be $41 million, consisting of $21 million of net income after taxes and new interest, $5 million of amortization of debentures discount and $15 million of depreciation and amortization, would be available to meet the prepayment obligation of the remainder of the long-term debt and its internal capital requirements.

Without giving any effect to the possibility of increasing the profitability of the Schenley assets not required in operations, or to the declining interest charges as the long-term debt is being reduced, the cash generation by Glen Alden will comfortably meet all debt service requirements.

The sinking fund on the $428 million of debentures

begins in the 11th year at 1% of face value and does not become meaningful until the 15th to 20th years. By this time the remainder of the Glen Alden debt will have been completely retired and cash surpluses would have been accumulating even without compounding through reinvestment.

In the last few years of the debentures when the sinking fund becomes significant, that is from the 17th to the 20th year, it would be possible for Glen Alden to cancel and refinance these debentures through the issuance of a new debt security of approximately $250 million for an additional fifteen to twenty years. Even if these new debentures were to require an even-level sinking fund over the next twenty years with no balloon payment at the end, the effect would be to level out the principal payments over a forty year period from the date of the Schenley acquisition.

The $428 million debenture issue also contains a clause that Glen Alden may satisfy the annual sinking fund requirement by submitting debentures purchased in the open market. Since we estimate that the debentures will sell in the open market at a price of $70 to $75, this means that Glen Alden can, in fact, retire a significant portion of its outstanding issue at a substantial discount from par. In the initial years, this discount would be approximately 25% to 30% of par and, overall should not be less than 20% of the entire issue. This discount would contribute a significant improvement to cash flow.

Furthermore, it should be noted that the earnings

to be derived from the Schenley division and other Glen Alden operations should significantly improve over the next two to three years, principally, from the compounded return on the reinvestment of the Schenley non-operating assets (see the discussion in Part IV above) and the expected improvement of the Schenley operations themselves. If the earning power of Glen Alden and Schenley were to merely maintain the same rate of growth as the economy over the next twenty years, the accumulated cash throw-off in excess of debt retirement obligations should compound in reinvestment to a point where it would cover the repayment of the debt securities issued for the Schenley acquisition by a minimum factor of three and one-half to four times the total obligations incurred.

Alan C. Greenberg

Alan C. Greenberg

Sworn to before me this

2nd day of May, 1968.

Julius Stark

JULIUS STARK
NOTARY PUBLIC, STATE OF NEW YORK
Qualified in Kings County
Certificate filed in New York County
Commission Expires March 30, 1970

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| [illegible] 5 3/4 - 1992 | [illegible] | [illegible] | [illegible] | [illegible] | 71.74% | 2.8* | - | Retire annually 1978-91, 4% of Debs. origin issued. Annual sinking fund requirement is $798,000 of which $175,000 must be redeemed at par. |
| [illegible] Airways [illegible] 3/4 - 1988 | 80,000 | 73 5/8 | 7.6 | 8.3 | 78.92 | 2.7 | B | Retire annually 1973-85, 6% of Debs. outstg. Dec. 1, 1972. Credit may be taken for Debs. otherwise acquired, including those applied against exercise price of warrants, after Dec. 1, 1972. |
| [illegible]-Temco-Vought [illegible] 1988 | 510,111 | 61 3/8 | 8.1 | 9.2 | 72.46 | 1.0* | - | Retire 50% of the total principal amount of Debs. in years 1979-87. The company may cre against sinking fund payments any Debs acquir upon exercise of warrants. |
| [illegible] Dory [illegible] Sub. 5 - 1981 | 7,723 | 65 3/4 | 7.6 | 9.6 | 78.90 | .55 | - | Retire 2% of Debs. outstg. Jan. 15, 1970 on each Feb. 15 in 1970-74 and 5% of Debs. on each Feb. 15 in 1975-80. Credit may be taken for Debs. acquired other than through fund. |
| [illegible] Data Processing [illegible] 5 3/4 - 1987 | 25,000 | 69 | 8.3 | 9.2 | 72.00 | 1.6 | B | 1972-86 set amounts payable to retire 80% of original Debs. Credit may be taken for Debs. acquired other than through the fund, including those applied against exercise price of warrants. |
| [illegible] Stores [illegible] 1/2 - 1982 | 26,748 | 81 1/2 | 8.0 | 8.8 | 75.23 | .66* | - | Retire 1% 1968-70, 2% 1971-73, 3% 1974-76, 4% 1977-79 and 5% 1980-81 of the aggregate principal amount of Debs. outstg. on June,15 1968. Credit may be taken for Debs. acquired other than through the fund. |
| National General [illegible] General [illegible] 1984 | 14,526 | 70 | 7.1 | 8.5 | 84.00 | 2.2 | - | Requires deposit by each May 15, 1969-82, an amount equal to 1/20 of Debs. issued before May 15, 1969 and in May 15, 1983 1/10 of such Debs. |
| [illegible] Debs. [illegible] 1976 [illegible] Farms | [illegible] | 89 | 6.9 | 9.1 | 87.27 | .55 | B | Retire in years 1965-1976 approximately 86% of Debs. Credit may be taken for Debs. acquired other than through fund. |

A1325

| | Exercise Price | Market Price of Common | Market Price of Warrant | [illegible] Common Price [illegible] | Warrant Price as [illegible] of Market Price |
|---|---|---|---|---|---|
| American Electronic Lab. | $22.67 | $17 | $8 1/2 | 72 | 38 |
| Atlas Corp | 6.25 | 5 1/2 | 3 3/8 | 75 | 61 |
| Braniff Airways | 73 | 57 1/2 | 21 5/8 | 37 (a) | 37 |
| Colonial Acceptance | 10 | 9 | 3 3/4 | 53 | [illegible] |
| Computerized Automotive | 7.50 | 7 | 5 1/2 | 86 | 7 |
| Far West Financial | 21.50 | 11 7/8 | 5 | 123 | [illegible] |
| Food Fair Properties | 3.50 | 3 7/16 | 1 5/16 | 40 | 38 |
| Gulf & Western | 55 | 45 1/8 | 20 1/8 | 66 | [illegible] |
| Henry's Drive In | 9 | 9 3/8 | 3 1/2 | 33 | 37 |
| Lake Central Airlines | 6 1/2 | 6 | 3 5/8 | 69 (a) | [illegible] |
| [illegible] B. Schaeffer | 2 1/2 | 2 5/8 | 1 | 34 | 38 |
| Magellan Petroleum | 4 | 3 5/8 | 1 3/4 | 59 | 48 |
| National Homes "B" | 10.85 (b) | 8 1/2 | 3 1/2 | 62 | 41 |
| Puritan Fashions | 13 | 10 5/8 | 4 5/8 | 66 | 44 |

**Source:** K. V. Convertible Fact Finder dated April 22, 1968

(a) Debentures can be tendered at par for exercise of warrants.

(b) For 1.04 shares

A1326

| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
|---|---|---|---|---|---|---|---|---|---|
| Owens-Illinois | [illegible] | 1992 | [illegible] | [illegible] | 87 | [illegible] | [illegible] | [illegible] | 4.78 |
| Penn-Dixie Cement | 5 | 1982 | 39 | 52 | 88 | 101 | [illegible] | [illegible] | [illegible] |
| Radio Corp. of America | 4-1/2 | 1992 | 29.25 | 22-7/8 | 78 | 93 | 19 | [illegible] | [illegible] |
| Riegel Textile | 5 | 1993 | 59 | 53-3/8 | 90 | 108 | [illegible] | [illegible] | 4.14 |
| Sanders Associates | 5 | 1992 | 43.50 | 33-1/2 | 77 | 95 | 24 | 5.25 | |
| Stauffer Chemical | 4-1/2 | 1991 | 67 | 53-3/4 | 80 | 106 | 32 | [illegible] | |
| Storer Broadcasting | 4-1/2 | 1986 | 53.50 | 40-5/8 | 76 | 98 | 24 | [illegible] | |
| Tenneco Corp. | 6-1/4 | 1992 | 51 | 45-7/8 | 90 | 100 | 12 | 4.45 | |
| United Aircraft | 5-3/8 | 1991 | 30 | 26-5/8 | 89 | 105 | 18 | 5.95 | |
| United Aircraft | 4-1/2 | 1992 | 84.39 | 76-3/8 | 90 | 112 | 24 | 4.80 | |
| U.S. Smelting & Refining | 5-3/4 | 1993 | 100 | 76-3/8 | 76 | 96 | [illegible] | 4.65 | |
| Utah Construction | 5 | 1992 | 70 | 57-1/4 | 82 | 100 | 23 | 5.71 | |
| Western Air Lines | 5-1/4 | 1993 | 96.50 | 87 | 90 | 114 | 26 | 4.39 | |
| White Consolidated | 5-1/2 | 1992 | 36.75 | 33-1/8 | 90 | 104 | 16 | 5.02 | |
| White Motor | 5-1/4 | 1993 | 62.50 | 51-3/4 | 83 | 99 | 20 | 5.56 | |
| Wpata Offshore | 4-3/4 | 1988 | 54.50 | 49-5/8 | 91 | 101 | 11 | 5.17 | |
| | 4-3/4 | 1988 | 53 | 47-5/8 | 90 | 110 | 23 | 4.30 | |

Source: K. V. Convertible Fact Finder dated April 22, 1968

A1327

| | Coupon | Maturity | Conversion Price | Common Mkt. Price | Conversion Value | Bond Mkt. Price | Premium Over Value | Yield |
|---|---|---|---|---|---|---|---|---|
| Allied Supermarkets | 5-3/4% | 1987 | $19.25 | $17-5/8 | 92% | 109 | 19 | [illegible] |
| Aluminum Co. of America | 5-1/4 | 1991 | 85 | 73-1/8 | 86 | 108 | [illegible] | 4.87 |
| Amerace Corp. | 5 | 1992 | 37 | 33-5/8 | 91 | 108 | 19 | 4.53 |
| American Airlines | 5-1/2 | 1991 | 30.75 | 25-3/4 | 84 | 109 | 31 | 5.02 |
| Automatic Canteen | 4-3/4 | 1981 | 33.26 | 25-5/8 | 77 | 94 | 23 | 5.03 |
| Carolina Tel. & Tel. | 5-3/4 | 1988 | 27 | 25-1/4 | 94 | 111 | 19 | 5.16 |
| Walt Disney | 4-1/2 | 1993 | 65 | 52-7/8 | 81 | 108 | 33 | 4.17 |
| El Paso Natural Gas | 6 | 1993 | 22.73 | 18-3/4 | 82 | 98 | 19 | 6.09 |
| Frontier Airlines | 6 | 1992 | 22-1/8 | 18-5/8 | 83 | 93 | 12 | 6.45 |
| General Instrument | 5 | 1992 | 67 | 60-1/2 | 90 | 105 | 16 | 4.76 |
| Granite City Steel | 4-5/8 | 1994 | 30 | 24-1/4 | 81 | 86 | 7 | 5.32 |
| Granite Equipment Leasing | 6 | 1987 | 52 | 46-1/2 | 89 | 95 | 6 | 5.32 |
| Heinrich & Payne | 5 | 1987 | 27.27 | 23-1/8 | 85 | 95 | 12 | 5.26 |
| Indian Head | 5-1/2 | 1993 | 38.50 | 35-3/8 | 92 | 103 | 12 | 5.34 |
| International Silver | 5 | 1993 | 35 | 32-5/8 | 93 | 111 | 19 | 4.50 |
| Keystone Steel | 4-1/2 | 1991 | [illegible] | 31-7/8 | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

A1328

| Offeror-Offeree 1966 | Offer Price | Book Value (latest year end) | % Premium over Book | Month Before | % Premium over Market | Results of Tender Offer |
|---|---|---|---|---|---|---|
| [illegible] Scheinman - Art Metal | $25 | $24.33 | 2.8% | $21-1/4 | 17.6% | Acquired 48% of shs. tendered for |
| [illegible]th Avenue Coach - Austin Nichols | 20 | 16.23 | 23.2 | 14-3/4 | 35.6 | Acquired 41% of shs. tendered for |
| [illegible]rican Tobacco - James Beam Dist. | 42-1/2 | 13.97 | 204.2 | 28-5/8 | 48.5 | |
| [illegible]solidated Foods - E.J. Brach | 48 | 17.34 | 176.8 | 40-3/4 | 17.8 | Failed |
| [illegible]ed Products - Dayco Corp. | 20-7/8 | 18.63 | 12.1 | 17-1/4 | 21.0 | Failed |
| Gamble [illegible]le-Skogmo - First National Stores | 35 | 58.80 | (40.5) | 34 | 2.9 | Failed |
| [illegible] - Julius Garfinckel | 43-1/2 | 18.17 | 139.4 | 35 | 24.3 | Failed |
| [illegible]rado Milling - Great Western Sugar | 44 | 24.95 | 76.4 | 39-1/2 | 11.4 | |
| [illegible] Chemical - Harshaw Chemical | 40 | 32.29 | 23.9 | 32-7/8 | 21.7 | Failed |
| [illegible]al American - Leonard Refineries | 17.15 | 16.26 | 5.5 | 14-3/4 | 16.3 | |
| WEAN [illegible] Engineering - McKay Machine | 55 | 59.10 | (7.0) | 46-1/4 | 18.9 | |
| [illegible]most Dairies - McKesson & Robbins | 51 | 34.88 | 46.2 | 44-5/8 | 14.3 | Acquired 75% of shs. tendered for |
| [illegible]most Dairies - McKesson & Robbins | 53 | 34.88 | 51.9 | 49 | 8.2 | |
| [illegible]gan Electric Power - Michigan Gas & Electric | 14-1/4 | 8.08 | 76.4 | 10-3/4 | 32.6 | |
| AMK [illegible]orp. - John Morrell | 27-1/2 | 42.64 | (35.5) | 20-3/4 | 32.5 | |
| VICTOREEN [illegible]reen Instruments - North & Judd Mfg. | 34 | 34.03 | (0.1) | 25-3/4 | 32.0 | Failed |
| [illegible]tt & Myers - Paddington Corp. | 35 | 7.10 | 393.0 | 30-7/8 | 13.4 | |
| HK Porter - Philip Carey Mfg. | 38 | 38.77 | 2.0 | 29-5/8 | [illegible] | Failed |
| [illegible] - Philip Carey Mfg. | 40 | 38.77 | 3.2 | 30-1/4 | 32.2 | Acquired 81% of shs. tendered for |
| [illegible]race - Ruberoid | 25 | 19.94 | 25.4 | 17-3/8 | 43.9 | Failed |
| CRANE [illegible] Co. - Seyhill Tubular | 20 | 20.69 | (3.3) | 17-3/8 | 15.1 | Acquired 50% of shs. tendered for |
| [illegible] - Thor Power Tool | 19 | 11.15 | 70.4 | 16-1/2 | 15.2 | |
| [illegible] - Firmly Clothes | 20 | [illegible] | (26.5) | [illegible] | [illegible] | |
| [illegible] - United Electric Coal | 50 | [illegible] | [illegible] | [illegible] | [illegible] | |
| [illegible] Electric - Warner Electric | 35 | 31.49 | 11.1 | 23 | 15.0 | |
| [illegible] Wilson & Co. | 62-1/2 | 27.51 | [illegible] | [illegible] | [illegible] | |

A1323

| Offeror-Offeree 1967 | | | | | | |
|---|---|---|---|---|---|---|
| Rockwell-Standard - Draper Corp. | 30 | 24.58 | 22.1 | 23-1/2 | 27.7 | |
| Dresser Industries - Link-Belt | 48-52 | 39.32 | 22.1-32.2 | 38-3/8 | 25.1-35.5 | Failed |
| FMC Corp. - Link-Belt * | 58 | 39.32 | 47.5 | 38-3/8 | 51.1 | |
| Condec Corp. - Lunkenheimer | 36 | 23.20 | 55.2 | 26 | 38.5 | Failed |
| Bucyrus-Erie - Racine Hydraulics | 26 | 12.92 | 101.2 | 21-1/4 | 22.4 | Failed |
| Paul Revere Corp. - Avco | 33 | 12.41 | 47.3 | 21-7/8 | 50.9 | |
| Sperry & Hutchinson - Bigelow-Sanford | 27 | 31.00 | (12.9) | 19 | 42.1 | |
| Houston Oil Field - Holly Sugar | 24 | 62.32 | (61.5) | 17-3/4 | 35.2 | |
| General Instrument - Universal Controls | 6.25 | 2.65 | 135.8 | 5 | 25.0 | |
| Anadite - Kropp Forge | 6 | 7.94 | (24.4) | 4-3/4 | 26.3 | Failed (later merged) |
| Condec - Lunkenheimer | 60 (E) | 23.20 | 158.6 | 26 (C) | 130.8 | |
| Occidental Pet. - Kern County Land | 83-1/2 | 32.18 | 159.5 | 59 | 41.5 | Failed |
| Great America - Glidden | 30 (A) | 17.27 | 73.7 | 21-5/8 | 38.7 | Failed |
| Emerson Electric - Dodge | 63 | 18.12 | 247.7 | 47-1/4 | 33.3 | Failed |
| Iroquois Industries - Syracuse China | 60 | 87.82 | (31.7) | 45 | 33.3 | Failed |
| National City Lines - D.C. Internt'l. | 21 | 7.71 | 172.4 | 19 1/8-5/8 | 9.8 | |
| Dresser - Symington Wayne | 40 | 20.27 | 97.3 | 34 7/8 | 14.7 | Failed (later merged) |
| Monogram Ind. - Nat'l. Screw Mfg. | 60 | 60.53 | (1.0) | 42-44 | 42.9 | |
| Liquidonics - Green Hydraulics | 25 | 4.54 | 450.7 | 15 | 66.7 | |
| Gulf & Western - Delta Steamships | 25 | 39.12 | (36.1) | 14-14 1/4 | 78.6 | Failed |
| Clevite - Sonotone | 10 1/2 | 6.90 | 52.2 | 9-1/4 | 13.5 | |
| Standard Prudential - Yuba Ind. | 28 (B) | 15.95 | 75.5 | 22 3/8-23 7/8 | 25.1 | |
| City Investing - General Devel. | 12.40 (D) | 6.86 | 80.8 | 11 3/8 | 9.0 | |
| Seeburg - Rheem Mfg. | 50 | 26.83 | 86.4 | 44 7/8 | 11.4 | Failed |
| City Investing - Rheem Mfg. | 60 | 26.83 | 123.6 | 44 7/8 | 33.7 | |
| Eastern Stainless Steel - | 45 1/2 | 36.92 | 23.2 | 33-35 | 37.9 | |
| Moore Drop Forging | 56 | 29.61 | 89.1 | 37 3/4 | 48.3 | Failed (later agreed to merger) |
| Gulf Resources - Bunker Hill | 35 | 25.26 | 38.6 | 25 1/2 | 37.3 | Failed |
| Jenkins - Fed. Paper Board | 47 1/2 | 67.48 | (29.6) | 37 1/2 | 36.7 | Failed (later merged) |

* And 84 3/8 for the Pfd. shares
** $11 for Pfd. Stock
*** Price 1 month before first tender

(D) Price of City Investing 1 month before tender offer, divided by 6.
1 share of City Investing was offered for [illegible] shares of General Dev.
(E) Payout: $60 in cash and [illegible] of [illegible] Stock, Condec
[illegible]

A1350

EXHIBIT E

GLEN ALDEN & LORILLARD OFFERS FOR SCHENLEY

| Offeror - Offeree | Date | Securities Offered | Probable Value per Share | (9/30/67) Book Value | % Premium Over Book | Market 2/20/68 | % Premium Over Market |
|---|---|---|---|---|---|---|---|
| Glen Alden - Schenley | 4/1/68 | Cash | $10 | | | | |
| | | $100 Par of 6% Debs. | 70 | | | | |
| | | | 80 | $53.40 | 50% | $58-1/2 | 37% |
| Glen Alden - Schenley | 3/20/68 | Cash | 20 | | | | |
| | | $60 Par Value of 6% Debs. | 42 | | | | |
| | | 3 Warrants to Buy Com. @15 | 18 | | | | |
| | | | 80 | 53.40 | 50 | 58-1/2 | 37 |
| Lorillard - Schenley | 4/1/68 | 3/10 Share of Common | 15 | | | | |
| | | $60 Par Value of Debs. Convertible into 1 share of Lorillard Common paying the lesser of $3.15 or 110% of the dividend on Lorillard Common | 63 | 53.40 | 46 | 58-1/2 | 33 |
| | | | 78 | | | | |
| Lorillard - Schenley | 4/8/68 | 3/10 Share of Common | 15 | | | | |
| | | $60 Par Value of Debs. | 63 | | | | |
| | | Cash Warrant | 10 | 53.40 | 65 | 58-1/2 | 50 |
| | | | 88 | | | | |

Per Share data before 3 for 2 split of Schenley common stock.

A1331

## EXHIBIT F

## ANALYSIS OF RESULTS OF TENDER OFFERS

| | Success | Partial Success | Failure |
|---|---|---|---|
| **Premium Over Book Value:** | | | |
| Over 100% | 8 | 0 | 5 |
| 50 - 100% | 7 | 0 | 5 |
| 0 - 50% | 8 | 3 | 6 |
| Discount | 6 | 1 | 6 |
| **Premium Over Market Price One Month Before Tender:** | | | |
| Over 50% | 4 | 0 | 1 |
| 40 - 50% | 3 | 0 | 3 |
| 30 - 40% | 7 | 1 | 7 |
| 20 - 30% | 5 | 0 | 7 |
| 10 - 20% | 7 | 3 | 3 |
| 0 - 10% | 3 | 0 | 1 |

A1332

A1333

EXHIBIT C

A1332

The Financial Times Saturday April 27 1968

**BEERS, WINES AND SPIRITS**

| 1967 High | 1967 Low | Stock | Closing Price | + or − | Div. for amount | Times covered | Gross yield % | P/E Ratio |
|---|---|---|---|---|---|---|---|---|
| [illegible] | 15 9 | [illegible] (5s) | 18 6 | ..... | 16 | 1 5 | 4 3 | 15 5 |
| [illegible] | [illegible] | [illegible] | 5 | | | | | |
| [illegible] | 16 6 | [illegible] | 18 3 | | 20 | •1 7 | 5 5 | 11 0 |
| [illegible] | 16 | [illegible] | 17 4 | − 0 | 12 | 1 5 | 7 7 | 8 7 |
| [illegible] | 16 | [illegible] | 17 1 | | 15 | 1 3 | 4 5 | 17 8 |
| [illegible] | [illegible] | [illegible] | 12 7 | − 1 | 11 | 1 2 | 3 4 | 18 9 |
| [illegible] | [illegible] | [illegible] | 15 | 6 | 20 | 1 5 | 7 7 | — |
| [illegible] | [illegible] | [illegible] | 19 9 | 3 | 17 | 1 5 | 4 3 | 16 0 |
| [illegible] | [illegible] | [illegible] | 17 3 | − 3 | •11 | 1 1 | 5 2 | 27 2 |
| [illegible] | [illegible] | [illegible] | 12 6 | | 14 | 1 4 | 5 6 | 12 3 |
| [illegible] | [illegible] | [illegible] | 29 9 | − 6 | 12 4 | 1 | 4 2 | [illegible] |
| [illegible] | 19 3 | [illegible] | 22 0 | | 11 | •1 1 | 4 8 | 18 1 |
| [illegible] | 18 3 | [illegible] | 21 9 | | 16 | 1 3 | 3 6 | 22 2 |
| [illegible] | [illegible] | [illegible] | 25 9 | 3 | 22 | •1 2 | 4 2 | 19 0 |
| [illegible] | [illegible] | [illegible] | 31 3 | ..... | 27 | •1 5 | 3 5 | 19 0 |
| [illegible] | [illegible] | [illegible] | 20 10 | | 15 | 1 5 | 3 7 | 18 0 |
| [illegible] | [illegible] | [illegible] | 27 | 6 | 19 | 1 0 | 3 5 | 28 6 |
| [illegible] | [illegible] | [illegible] | 29 9 | | 15 | 1 2 | 4 5 | 19 3 |
| [illegible] | [illegible] | [illegible] | 75 | 3 | 15 | 1 3 | 4 2 | 18 3 |
| [illegible] | [illegible] | [illegible] | 24 9 | 6 | 13 | 1 4 | 5 2 | 13 3 |
| [illegible] | [illegible] | [illegible] | 44 6 | 6 | 35 | 1 3 | 3 9 | 19 7 |
| [illegible] | [illegible] | [illegible] | 20 9 | | 14 | 1 3 | 3 5 | 21 2 |
| [illegible] | [illegible] | [illegible] | 30 6 | | 20 | 1 8 | 3 2 | 16 9 |
| [illegible] | [illegible] | [illegible] | 44 3 | | 19 | 1 5 | 4 2 | 15 9 |
| [illegible] | [illegible] | [illegible] | 17 3 | | 20 | 0 9 | 5 8 | 19 1 |
| [illegible] | [illegible] | [illegible] | 36 9 | 3 | 13 | 1 5 | 3 6 | [illegible] |
| [illegible] | [illegible] | [illegible] | 54 6 | | 22 | 1 [illegible] | 4 6 | 17 4 |
| [illegible] | [illegible] | [illegible] | 20 3 | 3 | 17 | 1 5 | 4 [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | 11 4 | | 10 8 | 1 3 | 4 [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | | 27 | [illegible] | 3 5 | [illegible] |
| [illegible] | [illegible] | [illegible] | 20 3 | | 14 4 | 1 3 | 3 5 | 22 9 |

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EXHIBIT H

LIQUOR INDUSTRY COMPARABLE EXCHANGE OFFERS

| Offeree | Year | Securities Offered | Value Of Offer Per Share | Book Value (latest year end) | % Premium Over Book | Price Month Before | % Premium Over Price | RESULT |
|---|---|---|---|---|---|---|---|---|
| Fifth Avenue Coach - Austin Nichols | 1966 | cash | $20.00 | $16.23 | 23% | $14 3/4 | 36% | Partially Successful |
| American Tobacco - James Beam | 1966 | cash | 42.50 | 13.97 | 204 | 28 5/8 | 48 | Successful |
| & Meyers - Paddington | 1966 | cash | 35.00 | 7.10 | 393 | 30 7/8 | 13 | Successful |
| man - Quality Importers | 1967 | 0.8 shares of class B non-voting common stock | 26.00 | 8.48 | 207 | 21 | 24 | Successful |
| American Tobacco - Buckingham | 1967 | cash | 18.00 | 6.51 | 176 | 14 1/2 | 24 | Not Successful |

A1334

EXHIBIT I

LIQUOR INDUSTRY COMPARATIVE PRICE EARNINGS MULTIPLES [illegible]

| | Schenley** | American Distilling | Brown-Forman Distillers | Distillers Corp. Seagrams | Heublein Inc. | National Distillers | Hiram Walker | AVERAGE P/E MULTIPLE |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year End | 7/31 | 9/30 | 4/30 | 7/31 | 6/30 | 12/31 | 9/31 | |
| CURRENT | | | | | | | | |
| Recent Price 4/22/68 | 52 | 36 1/8 | 23 7/8 | 39 1/4 | 39 1/4 | 36 5/8 | 31 | |
| P/E Multiple on Latest 12 mos. earnings | 18.9 | 12.9 | 16.5 | 14.2 | 27.6 | 11.4 | 12.8 | 16.[illegible] |
| High 1/1/68 to Date | | | | | | | | |
| Price | 54 1/8 | 37 3/8 | 25 7/8 | 41 3/8 | 32 7/8 | 43 1/2 | 32 | |
| P/E Multiple | 19.7 | 13.3 | 17.8 | 15.[illegible] | 29.4 | 13.6 | 13.2 | 17.4 |
| Low 1/1/68 to Date | | | | | | | | |
| Price | 42 7/8 | 33 3/4 | 23 | 35 7/8 | 26 1/2 | 36 1/4 | 27 1/4 | |
| P/E Multiple | 15.6 | 12.0 | 15.9 | 13.0 | 23.7 | 11.3 | 11.2 | 15.[illegible] |
| Mean 1/1/68 to Date | | | | | | | | |
| Price | 48 1/2 | 35 1/2 | 24 1/4 | 38 5/8 | 29 5/8 | 39 7/8 | 29 5/8 | |
| P/E Multiple | 17.7 | 12.7 | 16.9 | 14.0 | 26.6 | 12.5 | 12.2 | 16.1 |
| HISTORICAL | | | | | | | | |
| 1967 | | | | | | | | |
| High P/E | 17 | 16 | 20* | 14 | 30 | 15 | 15 | 18 |
| Low P/E | 8 | 10 | 12* | 11 | 17 | 12 | 11 | 12 |
| 1966 | | | | | | | | |
| High P/E | 11 | 12 | 17 | 14 | 20 | 13 | 16 | 15 |
| Low P/E | 6 | 9 | 12 | 10 | 16 | 10 | 11 | 11 |
| 1965 | | | | | | | | |
| High P/E | 10 | 13 | 24 | 17 | 19 | 15 | 20 | 17 |
| Low P/E | 6 | 11 | 12 | 13 | 15 | 11 | 16 | 12 |
| 1964 | | | | | | | | |
| High P/E | 16 | 13 | 15 | 15 | 20 | 14 | 19 | 16 |
| Low P/E | 13 | 11 | 11 | 11 | 15 | 12 | 15 | 13 |
| 1963 | | | | | | | | |
| High P/E | 18 | 16 | 16 | 16 | [illegible] | [illegible] | [illegible] | 17 |
| Low P/E | 13 | 12 | 11 | 12 | 16 | 12 | [illegible] | 12 |

latest available 12-month earnings. **All prices adjusted for [illegible] 3 for 1 split.

A1335

| | Schenley** | American Distilling | Brown-Forman Distillers | Distillers Corp. Seagrams | Heublein Inc. | Int. Nat'l Distillers | Hiram Walker | Average Top 10 Liquor |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year End | 7/31 | 9/30 | 4/30 | 7/31 | 6/30 | 12/31 | 3/31 | |
| **CURRENT** | | | | | | | | |
| Recent Price 4/22/68 | 52 | 36 1/8 | 25 7/8 | 39 1/4 | 36 1/4 | 36 5/8 | 31 | |
| P/E Multiple on latest 12 mos. earnings | 18.9 | 12.9 | 16.5 | 14.2 | 27.0 | [illegible] | 12.8 | 16.7 |
| Year 1/1/68 to Date | | | | | | | | |
| Price | 54 1/8 | 37 3/8 | 25 7/8 | 41 3/8 | 34 7/8 | [illegible] | 3[illegible] | |
| P/E Multiple | 19.7 | 13.3 | 17.8 | 15.0 | 29.4 | 13.6 | 14.3 | 17.4 |
| 1 1/1/68 to Date | | | | | | | | |
| Price | 42 7/8 | 33 3/4 | 23 | 35 7/8 | 26 1/2 | 30 1/4 | 27 1/4 | |
| P/E Multiple | 15.6 | 12.0 | 15.9 | 13.0 | 23.7 | 11.3 | 11.2 | 15.6 |
| Year 1/1/68 to Date | | | | | | | | |
| Price | 48 1/2 | 35 1/2 | 24 1/4 | 38 5/8 | 29 5/8 | 39 7/8 | 29 5/8 | |
| P/E Multiple | 17.7 | 12.7 | 16.9 | 14.0 | 26.6 | 12.5 | 12.2 | 16.1 |
| **HISTORICAL** | | | | | | | | |
| [illegible] | | | | | | | | |
| High P/E | 17 | 16 | 20* | 14 | 30 | 15 | 15 | 18 |
| Low P/E | 8 | 10 | 12* | 11 | 17 | 12 | 11 | 12 |
| [illegible] | | | | | | | | |
| High P/E | 11 | 12 | 17 | 14 | 20 | 13 | 16 | 15 |
| Low P/E | 6 | 9 | 12 | 10 | 16 | 10 | 11 | 11 |
| [illegible] | | | | | | | | |
| High P/E | 10 | 13 | 24 | 17 | 19 | 15 | 20 | 17 |
| Low P/E | 6 | 11 | 12 | 13 | 15 | 11 | 16 | 12 |
| [illegible] | | | | | | | | |
| [illegible] | 26 | 13 | [illegible] | [illegible] | | | [illegible] | [illegible] |
| [illegible] | 13 | [illegible] | | | | | | |
| [illegible] | | | | | | | | |
| [illegible] | 1[illegible] | 15 | | 17 | | | 1[illegible] | 17 |

[illegible]

A1336

EXHIBIT J

LIQUOR INDUSTRY: COMPARISON OF CURRENT ASSETS

| | Schenley | American Distilling | Brown-Forman Distillers | Distillers Corp.-Seagrams | Heublein, Inc. | National Distillers | [illegible] Palmer |
|---|---|---|---|---|---|---|---|
| | ($ Million) | | | | | | |
| Sales | 518.0 | 124.5 | 165.8 | 1,164.6 | 302.8 | 897.0 | 590.4 |
| Accounts Receivable (Net) | 117.4(a) | 16.5 | 20.6 | 186.4 | 40.9(a) | 132.6(a) | 65.3 |
| Inventory | 318.3 | 24.9 | 67.4 | 418.9 | 31.9 | 213.6 | 189.9 |
| Net Working Capital | 323.1 | 32.3 | 76.3 | 466.7 | 34.5 | 338.3 | 221.9 |
| As % of Sales | | | | | | | |
| Accounts Receivable | 22.7% | 13.2% | 12.6% | 16.0% | 11.3% | 14.8% | 11.1 |
| Inventory | 61.4 | 20.0 | 41.1 | 36.0% | 8.8 | 23.8 | 32.2 |
| Net Working Capital | 62.4 | 25.9 | 46.6 | 40.1 | 9.5 | 37.7 | 37.6 |

(a) Accounts and Notes Receivable

Note: All data as of end of 1967 fiscal year

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EXHIBIT 8

LIQUOR INDUSTRY COMPARATIVE BOOK VALUE MULTIPLES - 1968-1965

| Fiscal Year-End | Schenley (c) 7/31 | American Distilling 4/30 | Brown-Forman Distillers 4/30 | Distillers Corp.-Seagrams 7/31 | Heublein Inc. 6/30 | National Distillers 2/31 | Hiram Walker 6/31 | Average Book Multiple (a) |
|---|---|---|---|---|---|---|---|---|
| **1968** | | | | | | | | |
| Tang latest ...ble Book Value per Share (...st fiscal year end) | $35.60 | $31.01 | $ 8.48 | $32.91 | $ 1.56 | $30.65 | $18.41 | |
| Re ...t Price 68 | 52 | 36-1/8 | 23-7/8 | 39-1/4 | 30-1/4 | 38-5/8 | 31 | |
| Book ...alue Multiple | 1.5 | 1.2 | 2.8 | 1.2 | 19.4 | 1.2 | 1.7 | 1.6 |
| **1967** | | | | | | | | |
| Book ...per Share | $35.60 | $31.01 | 8.48 | $32.91 | $ 1.56 | $30.65 | $18.41 | |
| High ...Price | 46-1/4 | 44-7/8 | 29-1/4 | 37-1/4 | 35 | 49-1/8 | 34-5/8 | |
| Mult ...ple | 1.3 | 1.4 | 3-5 | 1.1 | 22.4 | 1.6 | 1.9 | 1.8 |
| Low ...Price | 20-3/8 | 26-3/4 | 17-3/8 | 30-5/8 | 18-3/8 | 37-1/4 | 26-1/2 | |
| Mult ...ple | .6 | .9 | 2.1 | .9 | 11.8 | 1.2 | 1.4 | 1.2 |
| **1966** | | | | | | | | |
| ...per Share | $33.92 | $29.86 | $ 8.48(b) | $31.15 | $ 0.91 | $28.23 | $17.24 | |
| " ...Price | 29-3/8 | 34-3/8 | 31 | 37 | 19 | 41-3/8 | 34-5/8 | |
| ...ple | .9 | 1.2 | 3.7 | 1.2 | 20.9 | 1.5 | 2.0 | 1.8 |
| ...Price | 16-5/8 | 27-1/4 | 16-5/8 | 25-1/4 | 14-1/8 | 30 | 23-3/4 | |
| ...ple | .5 | .9 | 2.0 | .8 | 15.5 | 1.1 | 1.4 | 1.1 |
| **1965** | | | | | | | | |
| ...per Share | $32.50 | $28.51 | $ 7.51(b) | $29.50 | $ 0.46 | $27.35 | $16.14 | |
| " ...Price | 26-1/2 | 34-1/2 | 37 | [illegible] | 14 | [illegible] | [illegible] | |
| ...ple | .8 | 1.2 | 4.3 | 1.3 | 4.0 | 1.3 | 2.5 | 1.9 |
| ...Price | 14-3/4 | 29-1/4 | 15-7/8 | 30-3/8 | 11-3/8 | 26-1/8 | 32 | |
| ...ple | .4 | 1.0 | 2.1 | [illegible] | 3.3 | 1.0 | 2.0 | 1.3 |

a) Excluding Heublein
b) As of 4/30 of following year
c) All figures adjusted for recent 3-for-2 split

A1000

A1339

NEW YORK—Schenley Industries Inc. said it had approved a plan under which it would become a wholly owned subsidiary of Glen Alden Corp., which owns 86% of Schenley's common stock.

The plan calls for Glen Alden, which in turn is 65% owned by Rapid-American Corp., to accomplish this by merging "a new subsidiary" of Glen Alden into Schenley. Under the terms of the plan, Schenley common stock shareholders (other than Glen Alden) would receive $5 in cash and $30 principal amount of a new 7½% 15-year Glen Alden senior subordinated debenture for each share of Schenley common stock. As of Dec. 31, Schenley had 7,991,777 common shares outstanding.

Holders of Schenley $1.40 preferred stock would receive $1.50 in cash and $27 principal amount of these debentures. Currently, Schenley has approximately 2,535,750 $1.40 preferred shares outstanding. The Schenley cumulative preference stock, of which 197,108 shares are outstanding, would remain unchanged.

The debentures will be subordinated to all present and future Glen Alden debt for money borrowed but senior to the 6% Glen Alden debentures of 1988, issued in Glen Alden's exchange offer for Schenley common stock in 1968. It is contemplated that the new debentures will be listed on the New York Stock Exchange.

After a delayed opening for both stocks on the New York Stock Exchange, Schenley common closed yesterday at $27.50, down $1.75, and Glen Alden at $9.125, up 12.5 cents.

The Schenley-Glen Alden transaction is subject to the execution of a definitive agreement and to approval by regulatory agencies, lending institutions and Schenley shareholders at Schenley's annual meeting on May 13 in Wilmington, Del.

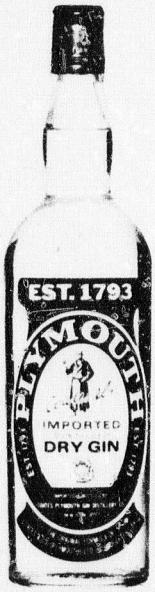
Schenley reported higher earnings yesterday for last year. Net rose to $27.2 million, or $3.01 a share, from 1969's $25.3 million, or $2.78 a share. Sales climbed to $669 million from $643 million.

WALL STREET JOURNAL, FEBRUARY 26, 1971

A1340 EX. 7

# Schenley Annual Report 1968

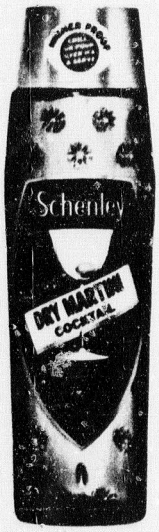
A1341


EST. 1793
PLYMOUTH
IMPORTED
DRY GIN

Samovar
VODKA
DRY

Long John
SCOTCH
Long John
SCOTCH

CARIOCA
Ron
CARIOCA
PUERTO RICAN
RUM


Schenley
DRY MARTINI
COCKTAIL

I.W.HARPER

MELROSE
RARE
12
FIFTH
Melrose and Company
MELROSE
RARE
12

GEORGE
Dickel
TENNESSEE
WHISKY

DEWAR'S
ANCESTOR
DEWAR'S

RED LABEL

OTARD
COGNAC OTARD
COGNAC

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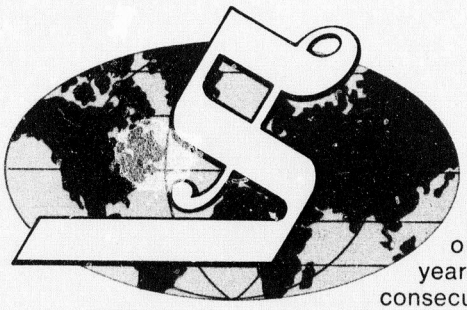
# To Our Shareholders and Employees:



Schenley sales of $550,348,000 in fiscal 1968 achieved a record level for recent years. This was the sixth consecutive year of rising volume. Net income for the year totalled $16,794,000.

While many of our brands contributed to the sales gain, notable achievements were made by:

• *Old Charter* Kentucky Straight Bourbon, which joined the "500,000 case-a-year club." Other Schenley Bourbons, which have been members of many years' standing, are *Ancient Age, I.W. Harper* bottled-in-bond and Kentucky Straight Bourbon, and *J.W. Dant* bottled-in-bond, straight and *Dant Charcoal Perfected* Bourbon.

• Dewar's *White Label* Scotch moved past the U.S. sales mark of one million cases in fiscal 1968. This places Dewar's, for which Schenley has had exclusive U.S. distribution rights since 1936, into the exclusive group of leading brands sold in this country. Sales of *Ancient Age* also exceed one million cases a year, a distinction held by *Schenley Reserve* for more than twenty years.

The decline in net income in 1968 to $16,794,000 compared with $21,084,000 in 1967, is attributable principally to the income tax surcharge, higher interest costs, and other transitional costs relating to marketing and organizational changes. In 1967, there was also reported a net gain of $1,642,000 on disposition of real estate.

Among the improvements in our facilities during the year were several important projects outside the United States. A fully automated, $2 million bottling plant was opened in Glasgow, Scotland, enabling our British subsidiary, Seager, Evans & Co. Ltd., to consolidate all of the whisky bottling it formerly performed in five separate facilities. In Canada, our subsidiaries, Canadian Schenley Distilleries, Ltd. and Canadian Park & Tilford Distilleries, Ltd., completed major distilling and warehousing programs to accommodate the increasing demand for Canadian whisky and the expanding sales of alcoholic beverages they import for their market.

* * * * * *

For the first time in Schenley's 35-year history the name Lewis S. Rosenstiel does not appear on this report. Certainly his decision to relinquish his active role in the affairs of the company marks the end of an era. He was a giant of a figure, not only in our company, but in the industry—and much in the marketing of distilled beverages in the United States bears his stamp.

There is a determination among his successors, both his former associates and the newcomers to Schenley, to carry on the tradition of leadership inspired by Lewis S. Rosenstiel. We have set future plans so that the company will become even more dynamic and successful.

Glen Alden Corporation, one of the Rapid-American "family of companies," acquired approximately 18 per cent of the common stock of Schenley Industries, from Mr. Rosenstiel and other related sellers in March 1968. Subsequently, Glen Alden acquired substantially all of the balance of its 88 per cent holdings through an offer to the holders of Schenley common stock to exchange their shares for cash and Glen Alden debentures. The offer expired on August 30, 1968.

As a result, Schenley joins other Glen Alden operations whose concentration on consumer product marketing provides a compatible and vital association. Among their renowned brandnames are *Playtex, B.V.D., Timely* and *Alligator,* to mention only a few.

A new Board of Directors was elected at a special shareholders' meeting on October 1st. At its first meeting on October 3rd, the Board elected a new Chairman and President. The ensuing weeks have been busy ones for all of us in the Schenley organization. We have set high goals. The response of our associates assures us that a new Schenley is being shaped to move into a new and bright era.

Isidore A. Becker
*Chairman*

Bernard Goldberg
*President*

October 31, 1968

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## DIRECTORS

ISIDORE A. BECKER
*Chairman of the Board of the Company;*
*Vice Chairman of the Board of Glen Alden Corporation;*
*Chairman of the Finance Committee and Financial Vice President of Rapid-American Corporation;*
*Vice Chairman of the Board and Treasurer of McCrory Corporation*

BERNARD GOLDBERG
*President of the Company*

WALTER O. HEINZE
*President of International Latex Corporation*

MILO B. HOPKINS
*Chairman, Finance Committee of James Talcott, Inc.*

PAUL A. JOHNSTON
*President of Glen Alden Corporation*

JOHN MACKIE
*Chairman of the Board of Seager Evans & Co. Ltd.*

RUSSELL G. SMITH
*Executive Vice President (Retired), Bank of America National Trust and Savings Association*

## OFFICERS

*Chairman of the Board*
ISIDORE A. BECKER

*Executive Vice President in charge of Corporate Development and Public Affairs*
LOUIS B. NICHOLS

*Vice President—Marketing*
HOWARD S. FELDMAN

*Vice Presidents*
CHARLES B. BUSCHER
EDGAR R. DEUTSCHE
WILLIAM E. DEVEREAUX
FRANK L. SUNDSTROM

*President*
BERNARD GOLDBERG

*Vice President—Finance and Comptroller*
DAVID A. CHERNOW

*Vice President—Administration*
HARRY ORENSTEIN

*Treasurer*
THOMAS J. HANSON

*Secretary and General Resident Counsel*
MILTON B. SEASONWEIN

## TRANSFER AGENTS

Manufacturers Hanover Trust Company
40 Wall Street, New York, N.Y. 10015

The Corporation Trust Company
15 Exchange Place, Jersey City, N. J. 07302

## REGISTRARS

Marine Midland Grace Trust Company of New York
140 Broadway, New York, N.Y. 10015

The First Jersey National Bank
1 Exchange Place, Jersey City, N. J. 07303

## GENERAL COUNSEL

Strasser, Spiegelberg, Fried & Frank
120 Broadway, New York, N.Y. 10005

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## Schenley's
## LEADING PRODUCTS

### BOURBONS
I. W. Harper — Old Charter
Champion — Olde Bourbon
J. W. Dant — Old Stagg
Ancient Age — Echo Spring
Ancient Ancient Age — Cream of Kentucky

### BOTTLED-IN-BOND
I. W. Harper — J. W. Dant
Old Charter

### BLENDED WHISKEY
Schenley Reserve — Melrose Rare
XL-Xtra Light — Park & Tilford Reserve
Golden Wedding — Three Feathers

### SCOTCH WHISKY
Dewar's White Label — Long John
Dewar's Ancestor — Ne Plus Ultra

### CANADIAN WHISKY
O.F.C. (Old Fine Canadian) — Order of Merit
MacNaughton — Grande Canadian

### TENNESSEE WHISKY
George A. Dickel
Dickel Powderhorn Bottle
Tennessee Walking Horse

### BRANDY
Coronet
Otard Cognac (France)
Stock '84 (Italy)
J. Bavet
Bonaparte (France)

### VODKA
Schenley — J. W. Dant
Samovar — Park & Tilford

### GIN
Schenley Dry — J. W. Dant
Melrose — Park & Tilford
Plymouth (England)

### VERMOUTH
Stock Sweet & Dry (Italy)

### RUM
Carioca (Puerto Rico)
Cruzan (Virgin Islands)

### LIQUEURS & COCKTAILS
DuBouchett Cordials — Schenley Cocktails
Stock Cordials (Italy) — J. W. Dant
Cherristock (Italy)

### APERITIFS & WINES
Dubonnet Red & Blonde — Calvet (France)
Cresta Blanca — Mateus Rosé (Portugal)
Roma — Lillet (France)
De Ladoucette (France)

### CHAMPAGNE
Cook's Imperial — Lanson (France)
Cresta Blanca — Pommery (France)

# Schenley Industries, Inc. and Subsidiary Companies

1968 Financial Statements

A1345

Schenley Industries, Inc. and Subsidiary Companies
As of August 31, 1968 and August 31, 1967

Consolidated

| | August 31, 1968 | August 31, 1967 |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term securities | $ 52,422,000 | $ 45,711,000 |
| Notes and accounts receivable, less reserves | 124,698,000 | 117,369,000 |
| Inventories— | | |
| Whiskey, other spirits and wine, at cost— | | |
| Taxpaid | 24,769,000 | 13,739,000 |
| In bond (Note 6) | 297,094,000 | 285,368,000 |
| Other products, materials and supplies, at lower of cost or market | 20,946,000 | 19,150,000 |
| | 342,809,000 | 318,257,000 |
| **Total Current Assets** | 519,929,000 | 481,337,000 |
| **Investments** | | |
| Seager Evans & Co. Ltd., stated at equity in underlying net assets (Note 1) | 18,685,000 | 18,707,000 |
| Other investments, at cost | 3,016,000 | 2,582,000 |
| | 21,701,000 | 21,289,000 |
| **Plant and Property** | | |
| Land, buildings, machinery, equipment, etc., at cost | 116,558,000 | 110,093,000 |
| Less—accumulated depreciation | 67,451,000 | 64,587,000 |
| | 49,107,000 | 45,506,000 |
| **Prepaid and Deferred Charges** | 2,950,000 | 3,956,000 |
| **Goodwill, Brands and Trade-Marks** | 19,068,000 | 18,595,000 |
| | $612,755,000 | $570,683,000 |

See Notes to Consolidated Financial Statements

Balance Sheet

| | August 31, 1968 | August 31, 1967 |
|---|---|---|
| **Current Liabilities** | | |
| Notes payable, including current portion of long-term debt | $109,000,000 | $ 84,450,000 |
| Accounts payable and accrued liabilities | 83,125,000 | 62,636,000 |
| Reserve for Federal income taxes | 5,633,000 | 11,189,000 |
| **Total Current Liabilities** | 197,758,000 | 158,275,000 |
| **Long-Term Debt** (Note 2) | 85,250,000 | 90,000,000 |
| **Deferred Taxes** | 4,910,000 | 5,553,000 |
| **Contingent Liabilities** (Notes 6 and 7) | | |
| **Minority Interest in The Buckingham Corporation** | 18,920,000 | 17,992,000 |
| **Shareholders' Interest** (Notes 2, 3 and 4) | | |
| Cumulative convertible preference stock— Authorized—4,000,000 shares of $.35 par value Issued—333,386 and 650,556 shares at August 31, 1968 and 1967, respectively (preference on involuntary liquidation—$3,333,860 at August 31, 1968 and $6,505,560 at August 31, 1967) | 117,000 | 228,000 |
| Common stock— Authorized—20,000,000 shares of $.93⅓ par value Issued—9,383,094 and 9,301,338 shares at August 31, 1968 and 1967, respectively | 8,757,000 | 8,681,000 |
| Capital surplus | 59,504,000 | 59,318,000 |
| Retained earnings | 272,242,000 | 265,339,000 |
| | 340,620,000 | 333,566,000 |
| Less—Treasury stock, at cost—486 shares of cumulative convertible preference stock and 1,612,276 shares of common stock | 34,703,000 | 34,703,000 |
| | 305,917,000 | 298,863,000 |
| | $612,755,000 | $570,683,000 |

See Notes to Consolidated Financial Statements

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Schenley Industries, Inc. and Subsidiary Companies
For the years ended August 31, 1968 and August 31, 1967

| Statement of Consolidated Income | August 31, 1968 | August 31, 1967 |
|---|---|---|
| **Income** | | |
| Sales, less returns and allowances | $550,348,000 | $517,996,000 |
| Other income—net | 792,000 | 1,506,000 |
| | 551,140,000 | 519,502,000 |
| **Income Deductions** | | |
| Cost of goods sold | 427,537,000 | 403,930,000 |
| Selling, advertising and administrative | 75,907,000 | 64,775,000 |
| Interest | 11,558,000 | 9,582,000 |
| Provision for Federal taxes on income including surcharge of $1,092,000 in 1968, less investment credit of $657,000 in 1968 and $579,000 in 1967 | 16,650,000 | 18,330,000 |
| Minority interest in net income of The Buckingham Corporation | 4,223,000 | 3,481,000 |
| | 535,875,000 | 500,098,000 |
| | 15,265,000 | 19,404,000 |
| **Equity in Net Income of Seager Evans & Co. Ltd.** (Note 1) | 1,529,000 | 1,680,000 |
| **Income before extraordinary item** | 16,794,000 | 21,084,000 |
| Net gain on disposition of real estate | — | 1,642,000 |
| **Net Income** | $ 16,794,000 | $ 22,726,000 |
| **Per Share of Common Stock** | | |
| Income before extraordinary item | $ 2.14 | $ 2.72 |
| Extraordinary item | — | .21 |
| **Net income** | $ 2.14 | $ 2.93 |

| Statement of Consolidated Retained Earnings | August 31, 1968 | August 31, 1967 |
|---|---|---|
| **Balance**—at beginning of year | $265,339,000 | $250,050,000 |
| **Add**—Net income | 16,794,000 | 22,726,000 |
| | 282,133,000 | 272,776,000 |
| **Deduct** | | |
| Cash dividends— | | |
| Cumulative convertible preference stock | 276,000 | 325,000 |
| Common stock | 9,615,000 | 7,112,000 |
| | 9,891,000 | 7,437,000 |
| **Balance**—at end of year | $272,242,000 | $265,339,000 |

See Notes to Consolidated Financial Statements

# Notes To Consolidated Financial Statements

NOTE 1: All subsidiary companies have been consolidated in the accompanying financial statements except Seager Evans & Co. Ltd., a subsidiary in Great Britain. The Company owns 75% of the outstanding capital stock of Seager Evans and states its investment at the amount of its equity in underlying net assets, as reported in the consolidated financial statements of Seager Evans and includes its equity in the earnings of Seager Evans in consolidated net income.

NOTE 2: Long-term debt is comprised of the following loans from insurance companies:

| | AUGUST 31 | |
|---|---|---|
| | 1968 | 1967 |
| Due March 1, 1979 at 6.5% | $71,500,000 | $ – |
| previously due March 1, 1969 at | | |
| 3.20% | – | 26,125,000 |
| 5.25% | – | 48,875,000 |
| Due November 1, 1975 at 3% (prepayments of $1,250,000 in 1969, and thereafter at $2,000,000 annually until November 1, 1975, when the remaining balance becomes due) | 13,750,000 | 15,000,000 |
| | $85,250,000 | $90,000,000 |

The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings and also provide that the Company may not pay dividends or acquire any of its capital stock, if, after giving effect to the payments for such purposes, the excess of consolidated current assets over consolidated current liabilities and long-term debt shall be less than a specified amount. The amount of such excess at August 31, 1968 was $236,921,000. Such payments are also restricted to the sum of $50,000,000 plus consolidated net income, as defined, subsequent to September 1, 1967.

NOTE 3: The cumulative convertible preference stock may be redeemed in whole or in part, upon resolution of the Board of Directors at any time after January 1, 1967, at a redemption price of $10.00 per share, plus any cumulative dividends applicable thereto. There were no arrearages in cumulative dividends as of August 31, 1968. Such stock is convertible into 1½ shares of the Company's common stock until December 31, 1969 by exchanging 7 shares of preference stock during 1968; and 8 shares thereafter.

NOTE 4: The Company's Employees' Share Purchase Plan provides for sale of shares of the Company's common stock to certain key employees, including officers, at a price not less than 95% of the fair market value at the date the option to purchase such shares was granted (after December 31, 1963, such price being 100% of fair market value). Options become exercisable in cumulative periodic installments to 1973. On September 1, 1967, a maximum of 19,650 shares were available for issue under the Plan, all of which were subject to options previously granted. Options became exercisable during the year with respect to 10,200 shares of common stock having an aggregate purchase price of $134,000. Under options exercised during the year, 11,250 shares of common stock, having an aggregate purchase price of $151,000 were issued. As of August 31, 1968, 8,400 shares of common stock were subject to options at prices ranging from $12.51 to $15.42 per share (aggregate purchase price $116,000). Capital surplus was increased during the year by $186,000 of which $140,000 was due to the excess of option price over par value of shares sold during the year under the Employees' Share Purchase Plan and $46,000 due to the conversion of cumulative preference stock into common stock.

Under the Company's trusteed Key Executive Deferred Compensation Incentive Plan, deferred compensation units, each equal to one share of the Company's common stock, are awarded to key employees of the Company. The costs applicable to compensation units granted or to be granted for fiscal 1967 and fiscal 1968 have been accrued and charged to income. Under the Plan the Company has deposited with the trust 25,800 shares of common stock.

NOTE 5: The Company has a trusteed noncontributory pension plan for most of its U.S. employees. Charges to inventory costs and operating expenses for pension costs in the year ended August 31, 1968 (net of income tax benefit) amounted to $900,000 which amount is presently estimated to be the normal service costs under the plan. No pension costs were provided in the year ended August 31, 1967, and no contributions were made to the pension trust during either of the two years since the liabilities actuarially computed were already fully funded. Costs of benefits accrued under other plans of subsidiaries, which are provided and funded currently, are not significant.

NOTE 6: Inventories of whiskey and other spirits, under existing Federal and other applicable laws, are subject to payment of excise taxes and other levies upon removal from bonded or other Government-controlled premises.

NOTE 7: On April 25, 1966, the United States Department of Justice filed a civil anti-trust case naming the Company and The Buckingham Corporation as defendants. The suit asserts that the acquisition of 52.66% of the stock of The Buckingham Corporation by the Company on August 31, 1964 was in violation of the anti-merger section of the Clayton Act. The Company has filed an answer denying the material allegations of the complaint and asserting, in addition, various separate and complete defenses to the action. The case is pending in the United States District Court for the Southern District of New York. No date for trial has been set as yet. Counsel for the Company are of the opinion that the Company has meritorious defenses to this complaint.

The Company and certain of its subsidiaries are contingently liable under certain guarantees, letters of credit and litigation now pending. The amounts of these contingencies are not material in relation to the Company's consolidated financial position.

Schenley Industries, Inc. and Subsidiary Companies
For the years ended August 31, 1968 and August 31, 1967

| Statement of Consolidated Changes in Working Capital | August 31, 1968 | August 31, 1967 |
|---|---|---|
| **Additions** | | |
| Net income | $ 16,794,000 | $ 22,726,000 |
| Add (Deduct) | | |
| Depreciation | 3,580,000 | 3,378,000 |
| Deferred taxes | (643,000) | 1,044,000 |
| Undistributed share of Seager Evans & Co. Ltd. earnings | (589,000) | (588,000) |
| | 19,142,000 | 26,560,000 |
| Proceeds from exercise of stock options | 151,000 | 553,000 |
| Increase in minority interest in The Buckingham Corporation | 928,000 | 735,000 |
| Other—net | 710,000 | 367,000 |
| | 20,931,000 | 28,215,000 |
| **Deductions** | | |
| Additions to plant and property—net | 7,181,000 | 5,113,000 |
| Reduction in long-term debt | 4,750,000 | 1,250,000 |
| | 11,931,000 | 6,363,000 |
| **Increase Before Distributions to Shareholders** | 9,000,000 | 21,852,000 |
| Cash dividends | 9,891,000 | 7,437,000 |
| **Increase (Decrease) in Working Capital** | $ (891,000) | $ 14,415,000 |
| **Working Capital at end of year** | $322,171,000 | $323,062,000 |

See Notes to Consolidated Financial Statements

## Auditor's Report

To the Board of Directors and the Shareholders of Schenley Industries, Inc.:

We have examined the consolidated balance sheet of Schenley Industries, Inc. (a Delaware corporation) and subsidiary companies consolidated as of August 31, 1968 and August 31, 1967, and the related statements of consolidated income, retained earnings and changes in working capital for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of The Buckingham Corporation (52.66% owned) and certain wholly-owned subsidiaries in Canada, which are included in consolidation, or the financial statements of Seager Evans & Co. Ltd., a 75% owned British subsidiary not consolidated. We have been furnished with the reports of other auditors with respect to such subsidiaries, which in the aggregate accounted for 17% of total consolidated assets as of August 31, 1968 and 1967.

In our opinion, based upon our examinations and the reports of other auditors referred to above, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings and changes in working capital present fairly the financial position of Schenley Industries, Inc. and subsidiary companies consolidated as of August 31, 1968 and August 31, 1967, and the results of their operations and changes in working capital for each of the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & CO.

New York, New York
October 31, 1968

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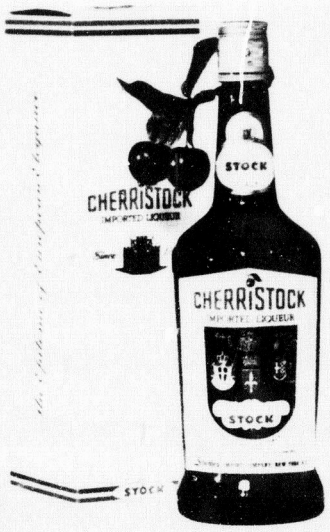

CHERRISTOCK
STOCK

Coffee House
Coffee House

J.W. Dant
KENTUCKY BOURBON
J.W. Dant

Dubonnet
DUBONNET

Schenley
RESERVE
Schenley
RESERVE

86 PROOF
GOLD MEDAL
W HARPER
KENTUCKY
STRAIGHT BOURBON
WHISKEY

IMPORTED
GRANDE
CANADIAN

10
Ancient
Ancient Age
Ancient
Ancient Age
10

MacNAUGHTON
IMPORTED
Canadian
MacNAUGHTON
CANADIAN WHISKEY
A BLEND
AGED SIX YEARS

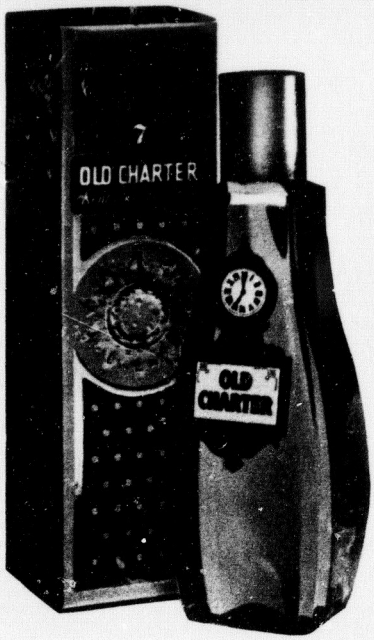
CALVET

OLD CHARTER
Kentucky Bourbon
OLD CHARTER

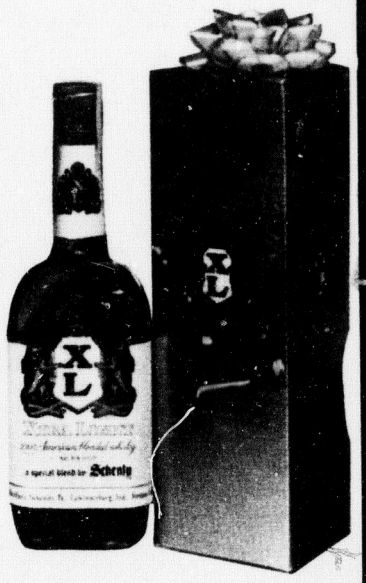
CORONET
VSQ
BRANDY
CORONET
VSQ
BRANDY
VSQ
CORONET
VSQ
Brandy

A1351

SCHENLEY


7
OLD CHARTER
OLD CHARTER

I.W.HARPER
I.W.HARPER


XL

White Label
DEWAR'S
Dewar & Sons Ltd

The
AMERICANA
COLLECTION

Dickel
Dickel

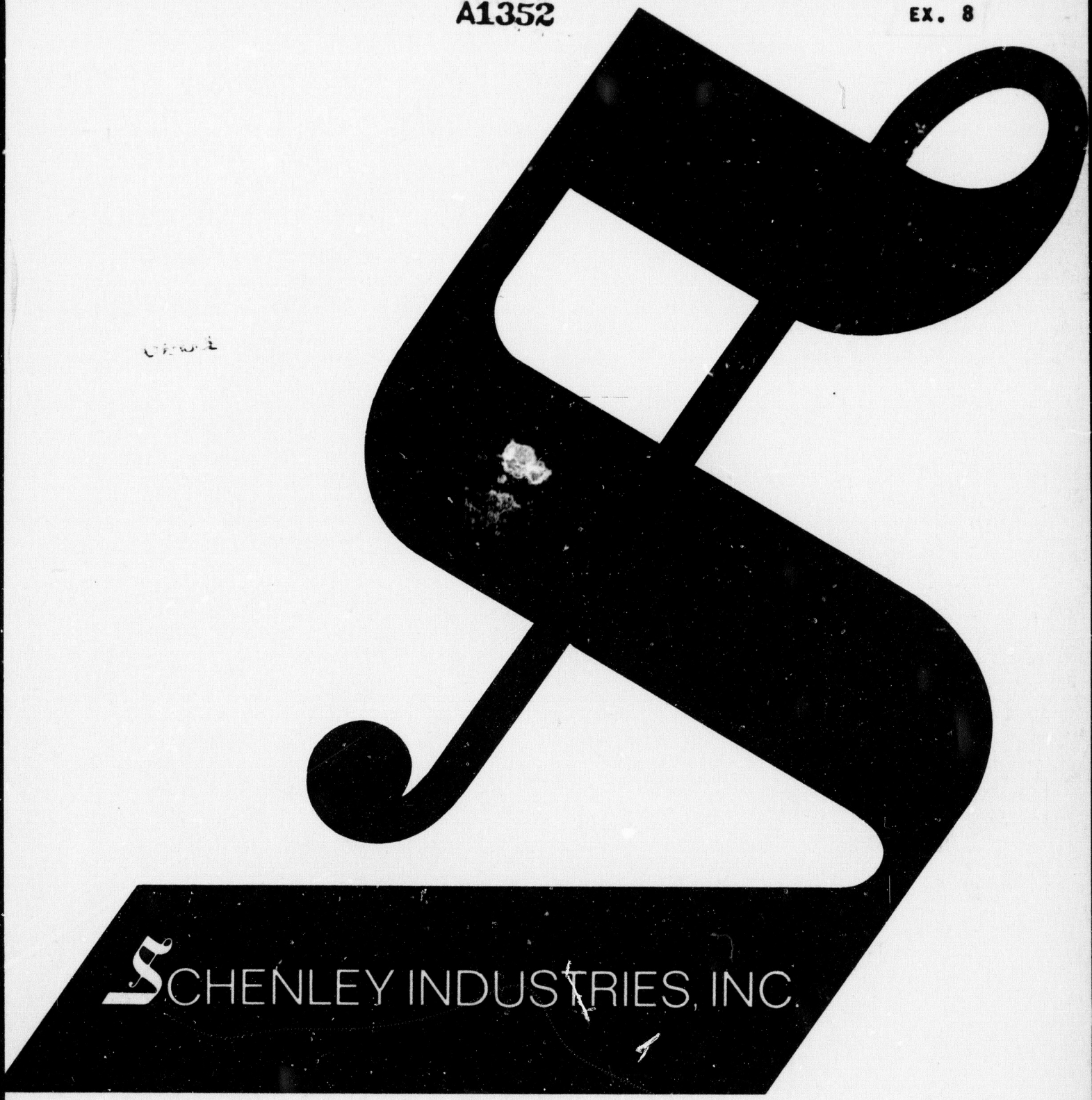
6
Ancient Age
Bourbon
AA
Ancient Age

MATEUS

IMPORTED
O.F.C.
IMPORTED
O.F.C.
Schenley

A1352

EX. 8




# ANNUAL REPORT 1969

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# 36TH ANNUAL REPORT

For the year ended December 31, 1969

# SCHENLEY INDUSTRIES, INC.

1290 Avenue of the Americas, New York, N. Y. 10019

## DIRECTORS

ISIDORE A. BECKER, *Chairman*
DAVID A. CHERNOW
BERNHARDT DENMARK
HOWARD S. FELDMAN
BERNARD GOLDBERG
ALBERT N. GREENFIELD
WALTER O. HEINZE
MILO B. HOPKINS
PAUL A. JOHNSTON
RUSSELL G. SMITH

## OFFICERS

*Chairman of the Board*—ISIDORE A. BECKER
*President*—BERNARD GOLDBERG
*Executive Vice President-Finance and Administration; Comptroller*—DAVID A. CHERNOW
*Executive Vice President-Sales and Marketing*—HOWARD S. FELDMAN
*Vice President-Cooperage*—EDGAR R. DEUTSCHE
*Vice President-Administration*—HARRY ORENSTEIN
*Vice President-Manufacturing*—ADOLPH SLONE
*Treasurer*—THOMAS J. HANSON
*Secretary; General Resident Counsel*—MILTON B. SEASONWEIN

## TRANSFER AGENTS

*For common and cumulative preference stock:*

Manufacturers Hanover Trust Company
40 Wall Street, New York, N.Y. 10015

The Corporation Trust Company
15 Exchange Place, Jersey City, N. J. 07302

*For $1.40 cumulative convertible preferred stock:*

Franklin National Bank
130 Pearl Street, New York, N. Y. 10015

## REGISTRARS

*For common and cumulative preference stock:*

Marine Midland Grace Trust Company of New York
140 Broadway, New York, N.Y. 10015

The First Jersey National Bank
1 Exchange Place, Jersey City, N. J. 07303

*For $1.40 cumulative convertible preferred stock:*

The Chase Manhattan Bank, N. A.
1 Chase Manhattan Plaza, New York, N.Y. 10015

## GENERAL COUNSEL

Strasser, Spiegelberg, Fried & Frank
120 Broadway, New York, N.Y. 10005

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# TO OUR SHAREHOLDERS AND EMPLOYEES—

In 1969, the first full year of Schenley's new management, the Company accomplished the most exciting growth record of its history. Your management is proud to report sales of $643 million, the highest in two decades and the second highest for Schenley all-time, net income of $25.3 million and earnings per common share of $2.78 after preference and preferred dividend requirements.

Sales of Schenley products in the United States increased by more than 2 million cases over 1968, the greatest annual Schenley growth since World War II.

Gratifying as they are, the impressive 1969 results were not unanticipated. In our previous Annual Report, we wrote that we had "set future plans so that the Company will become even more dynamic and successful," and that "a new Schenley is being shaped to move into a new and bright era."

Many of the changes that produced a "new Schenley" were organizational, but most concerned upgraded and updated marketing philosophies and practices. Highlights of some of their results in the United States can be found on the following page.

In Canada, your Company's important affiliates, Canadian Schenley Distilleries Ltd. and Canadian Park & Tilford Distilleries Ltd., reported gains in dollar sales, product volume and marketing profit. Outstanding were the sales records of *Henkes* liqueurs, a domestic Canadian line introduced only three years ago that already accounts for nearly 8 per cent of the liqueur sales in Canada, and of *Ron Carioca,* a Schenley-produced rum that has gained about 20 per cent in each of the last four years in Canadian sales.

Schenley's British subsidiary, Seager Evans & Co. Ltd., made satisfactory progress despite difficult marketing problems in England. Impressive sales gains were recorded for Seager-Evans' products in most of its export markets.

On December 15, 1969, BHM Industries, Inc., parent company of The Buckingham Corporation, was merged into Schenley. Accordingly, The Buckingham Corporation, sole distributor in the United States of *Cutty Sark* Scotch whisky, is now a wholly-owned Schenley subsidiary, but retains its own independent Board of Directors, management and field sales and distribution staff. Prior to the merger Schenley had owned 52.7 per cent of the stock of BHM Industries.

Schenley now reports its operations on a calendar year basis, and all 1969 figures in this report are for the year ended on December 31. Schenley previously reported on a fiscal year that ended on August 31.

A record year like Schenley's in 1969 is not possible without conscientious and loyal support from shareholders, from employees, from distributors and from the retailers who are a supplier's ultimate contact with the buying public. We feel a particular appreciation of our employees, who in 1969 adjusted to the exigencies of change and gave zealous attention to their responsibilities. Because of this fine work record, we were especially pleased that—toward the end of the year—we were able to keep an announced promise to liberalize employee benefits. New basic medical insurance, major medical insurance and life insurance programs, and a revised pension program, became effective January 1, 1970 for most salaried employees.

Schenley's exciting record in 1969 not only moved the Company stirringly ahead, but also provides a springboard for greater advances in the future. Subject to the vagaries of national economic factors that we cannot foresee or control, your management anticipates continued gains in Schenley's share of the markets it serves.

Bernard Goldberg
*President and*
*Chief Operating Officer*

Isidore A. Becker
*Chairman of the Board*
*and Chief Executive Officer*

# SCHENLEY IN 1969—

• Adopted a "new look" by deed and promulgated it by word. "The impact of the change has industry-wide significance," concluded an eight-page feature article on "The 'New Look' at Schenley" that appeared in the April issues of 30 important trade magazines.

• Concentrated on a trimmed product list, spending the bulk of its advertising and promotion dollars on the most promising and profitable of the brands listed on the inside back cover.

**• Increased U. S. sales of *Dewar's "White Label"* Scotch whisky to a record volume of 1,650,000 cases on a fifth basis. *Dewar's "White Label"* is now the third most popular Scotch whisky in the U. S., and the most popular distilled spirit regardless of type or price in Metropolitan New York, the world's largest liquor market.**

• Appointed four new advertising agencies, three with no previous liquor experience. "Schenley is most apt to get creative freshness from agencies with no preconceived ideas about how distilled spirits and wine should be marketed," surveys had indicated.

• Early in the year, scheduled meetings at which the principals and sales managers of every key wholesale house that handles Schenley products met personally with Chairman Becker and President Goldberg, obtained the "new Schenley" message from them and were given previews of the exciting new ads.

• Unveiled the new ads for the nation's press, earning such plaudits as "a wondrous array" (The New York Times), "an advertising extravaganza" (The Chicago Tribune), "the biggest ad show in the liquor industry" (Advertising Age), "real groovy" (Variety).

**• Increased sales of its two leading premium Bourbons—by 125,000 cases for *I. W. Harper* and by 80,000 cases for *Old Charter.***

• Established closer liaison with European suppliers, reviewing with them at the top level Schenley's marketing efforts for their products. Accompanied on inspection tours of the U. S. by Schenley executives during the year were: David Small, managing director of John Dewar & Sons Ltd. of Perth, Scotland; Mario Morpurgo, president of Distillerie Stock S.p.A. of Trieste, Italy, and Fernando van Zeller Guedes, president of Sociedade Comercial dos Vinhos de Mesa de Portugal, the largest exporter of Portuguese wines. Schenley is the exclusive U. S. distributor of *Dewar's "White Label"* Scotch whisky, of *Stock* brandies, vermouths and liqueurs and of *Mateus Rosé* and other Sociedade Comercial wines.

**• Increased U. S. sales of *Mateus Rosé* by 80,000 cases. *Mateus* is now the most popular Portuguese still wine in the U. S.**

• Established *George Dickel* Tennessee whisky as a "call brand", an important early step in effective marketing. Tennessee whisky is a distinct type with a connoisseur market of its own; *George Dickel* is one of only two brands of Tennesee whisky available today.

• Created streamlined new packaging for and expanded the advertising budget of *O.F.C.*—Schenley's premium, bottled-in-Canada Canadian whisky—in a drive for stronger position in this profitable and expanding category.

**• Increased U. S. sales of its medium-priced Canadian whisky, *MacNaughton*, by 80,000 cases. *MacNaughton* is the most popular brand of its type and price in the country, and the best-selling of all distilled spirits in the state of Washington.**

• Stimulated distributors and their salesmen to extra efforts during the important holiday buying season with a presentation of Schenley's offerings called "The Schenley Spirit of Imagination" that indicated that the "new look" was paying off.

• Was the only distiller credited with sales increases for as many as six important Bourbons *(I. W. Harper, Ancient Age, J. W. Dant, Old Charter, Olde Bourbon, Echo Spring)* in the brand surveys published annually by leading publications.

**• Increased sales of *Ancient Age* by 265 000 cases. *Ancient Age* is the world's most popular 6-year-old Bourbon.**

• Amplified its marketing of special commemorative bottlings that appeal to collectors as well as whiskey fanciers. Items were added to the *"Americana"* series on famous events in U. S. history, a new *"Field Birds"* series was inaugurated and such events as the American Legion's fiftieth anniversary were commemorated. Bottles are uniquely shaped, colored and labeled, and contain Schenley's *J. W. Dant* whiskey.

• To improve communications with employees, initiated a trilingual company-wide internal newsletter that is published in French (for the Montreal area) and Spanish (for Mexico and Puerto Rico) as well as English.

**• Increased sales of *Coronet VSQ* brandy by 90,000 cases. *Coronet VSQ* is the most popular distilled spirit regardless of type or price in Wisconsin.**

• Received widespread industry recognition of its accomplishments. Reported BEV Executive: "Through quiet unobtrusive methods, the Company has been able to mend many fences, dispel the lack of credibility and convince a large segment of the trade that Schenley is a different Company." After quoting Chairman Becker's remark at the press conference at which 1969 sales and earnings figures were announced that—although Schenley is still No. 4 in over-all industry rankings—the gap between it and its major competitors has narrowed markedly, the influential Alcoholic Beverage Executives' Newsletter volunteered: "From the tone of the press conference, it was evident that all concerned are going to go all-out to close the gap."

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Schenley Industries, Inc. and
Consolidated Subsidiary Companies

# FINANCIAL HIGHLIGHTS

| | Calendar Year 1969 | Fiscal Year 1968 |
|---|---|---|
| **Sales** | **$643,075,000** | $550,348,000 |
| **Net Income** | **25,263,000** | 21,017,000 |
| **Earnings Per Common Share:** | | |
| Primary | **2.78** | 2.24 |
| Assuming full dilution | **2.45** | 2.04 |
| **Dividends Paid** | **14,854,000** | 13,185,000 |
| **Taxes** (includes Federal income, excise and social security taxes and import duties; state income and other state and local taxes) | **349,000,000** | 291,000,000 |
| **Book Value Per Common Share** | **34.04** | 32.89 |
| **Average Number of Common Shares Outstanding** | **7,803,878** | 7,715,844 |

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Schenley Industries, Inc. and
Consolidated Subsidiary Companies

## Balance Sheet

| | December 31 1969 | December 31 1968 |
|---|---|---|
| **Current Assets:** | | |
| Cash and short-term securities | $ 66,483,000 | $ 52,600,000 |
| Receivables, less reserves | 131,745,000 | 127,561,000 |
| Inventories: | | |
| Whiskey, other spirits, and wine, at cost: | | |
| In bond | 269,023,000 | 293,600,000 |
| Tax paid | 25,636,000 | 28,721,000 |
| Other products, materials and supplies, at lower of cost or market | 25,176,000 | 18,174,000 |
| | 319,835,000 | 340,495,000 |
| **Total current assets** | 518,063,000 | 520,656,000 |
| **Investments:** | | |
| Seager Evans & Co. Ltd., at equity | 19,541,000 | 18,898,000 |
| Other investments, at cost | 18,486,000 | 2,997,000 |
| | 38,027,000 | 21,895,000 |
| **Plant and Property:** | | |
| Land, buildings, machinery, equipment, etc. | 117,719,000 | 117,376,000 |
| Less accumulated depreciation | 68,537,000 | 68,155,000 |
| | 49,182,000 | 49,221,000 |
| **Prepaid and Deferred Charges** | 3,568,000 | 3,524,000 |
| **Goodwill, Brands and Trade-Marks** | 18,714,000 | 18,881,000 |
| | $627,554,000 | $614,177,000 |

See Notes to Financial Statements

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| | December 31 1969 | December 31 1968 |
|---|---|---|
| **Current Liabilities:** | | |
| Notes payable—short-term | **$136,400,000** | $140,000,000 |
| Current maturities of long-term debt | **2,000,000** | 4,750,000 |
| Accounts payable | **21,291,000** | 19,852,000 |
| Accrued expenses | **40,269,000** | 33,688,000 |
| Accrued Federal income taxes | **5,825,000** | 3,052,000 |
| **Total current liabilities** | **205,785,000** | 201,342,000 |
| **Long-Term Debt** | **82,000,000** | 84,000,000 |
| **Deferred Taxes** | **6,248,000** | 4,990,000 |
| **Shareholders' Equity:** | | |
| Preference and preferred stocks (preference on involuntary liquidation $67,869,000 and $67,932,000) | **2,815,000** | 2,817,000 |
| Common stock—authorized 20,000,000 shares of $.93⅓ par value; issued 9,418,133 and 9,411,585 shares | **8,790,000** | 8,784,000 |
| Capital surplus | **62,241,000** | 62,883,000 |
| Retained earnings | **294,473,000** | 284,064,000 |
| | **368,319,000** | 358,548,000 |
| Less treasury common stock (1,612,276 shares) and preference and preferred stocks, at cost | **34,798,000** | 34,703,000 |
| **Total shareholders' equity** | **333,521,000** | 323,845,000 |
| | **$627,554,000** | $614,177,000 |

See Notes to Financial Statements

Schenley Industries, Inc. and
Consolidated Subsidiary Companies

## Statement of Income

| | Year Ended December 31, 1969 | Four Months Ended December 31, 1968 | Year Ended August 31, 1968 |
|---|---|---|---|
| **Income:** | | | |
| Net sales | $643,075,000 | $188,933,000 | $550,348,000 |
| Other income—net | 3,153,000 | 1,640,000 | 2,320,000 |
| | 646,228,000 | 190,573,000 | 552,668,000 |
| **Income Deductions:** | | | |
| Cost of goods sold | 504,718,000 | 150,240,000 | 427,537,000 |
| Selling, advertising and administrative expenses | 77,233,000 | 27,291,000 | 75,906,000 |
| Interest expense—net | 14,144,000 | 4,588,000 | 11,558,000 |
| Provision for Federal taxes on income: | | | |
| Current | 23,685,000 | 3,280,000 | 16,442,000 |
| Deferred | 1,185,000 | 250,000 | 208,000 |
| | 620,965,000 | 185,649,000 | 531,651,000 |
| **Net Income** | $ 25,263,000 | $ 4,924,000 | $ 21,017,000 |
| **Earnings Per Common Share:** | | | |
| Primary (after preference and preferred dividend requirements) | $ 2.78 | $ .47 | $ 2.24 |
| Fully Diluted (assumes conversion of all convertible securities and exercise of all stock options) | $ 2.45 | $ .47 | $ 2.04 |

## Statement of Retained Earnings

| | Year Ended December 31, 1969 | Four Months Ended December 31, 1968 | Year Ended August 31, 1968 |
|---|---|---|---|
| **Balance—at Beginning of period** | $284,064,000 | $285,065,000 | $265,339,000 |
| **Add—(Deduct):** | | | |
| Amount resulting from pooling of interests | — | — | 11,894,000 |
| Net income for the period | 25,263,000 | 4,924,000 | 21,017,000 |
| Cash dividends declared: | | | |
| Preference | (100,000) | (51,000) | (276,000) |
| Preferred | (947,000) | — | — |
| Common ($1.35, $.65 and $1.25 per share, respectively) | (10,513,000) | (5,050,000) | (9,615,000) |
| Cash dividends of pooled company prior to acquisition | (3,294,000) | (824,000) | (3,294,000) |
| **Balance—at End of period** | $294,473,000 | $284,064,000 | $285,065,000 |

See Notes to Financial Statements

# Notes to Financial Statements

December 31, 1969

**Principles of Consolidation and Acquisition**

All significant subsidiary companies have been consolidated in the accompanying financial statements except Seager Evans & Co. Ltd., a 75%-owned subsidiary in Great Britain. The Company has stated its investment in Seager at the amount of its equity in underlying net assets. The Company has included in Other income—net, $1,363,000 for the year ended December 31, 1969; $857,000 for the four months ended December 31, 1968 and $1,529,000 for the year ended August 31, 1968, its equity in the earnings of Seager.

During December 1969, BHM Industries, Inc. (a 52.66%-owned subsidiary since August 1964) was merged with the Company in a pooling of interests. Retroactive effect has been given to this transaction in the consolidated financial statements.

**Plant and Property**

Plant and property, stated at cost, consist of the following:

| | December 31 | |
|---|---|---|
| | 1969 | 1968 |
| Land | $ 3,434,000 | $ 3,512,000 |
| Buildings and improvements | 54,147,000 | 53,446,000 |
| Machinery and equipment | 50,574,000 | 49,721,000 |
| Other | 9,564,000 | 10,697,000 |
| | $117,719,000 | $117,376,000 |

For financial statement reporting, depreciation is charged to production costs and operating expenses based, principally, upon the use of the straight-line method at specific rates. For income tax reporting, guideline rates and accelerated methods are applied to certain assets and the reduction in taxes currently payable is included in the deferred provision for taxes on income.

**Long-Term Debt**

Long-term debt at December 31, 1969 is comprised of the following loans from insurance companies:

| | |
|---|---|
| Due March 1, 1979 at 6.5% | $71,500,000 |
| Due November 1, 1975 at 3% (prepayments of $2,000,000 due annually, until maturity) | 10,500,000 |
| | $82,000,000 |

The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings. Under the agreements, payments for dividends and the acquisition of the Company's capital stock are restricted to the sum of $67,166,000 at December 31, 1969.

**Preference, Preferred and Common Stocks**

At December 31, 1969, preference and preferred stocks comprised the following:

| | Cumulative Preference Stock | $1.40 Cumulative Convertible Preferred Stock |
|---|---|---|
| Par value | $.35 | $1.00 |
| Authorized | 4,000,000 | 2,745,550 |
| Issued | 197,594 | 2,745,550 |
| Held in treasury | 486 | 3,100 |
| Annual dividend rate | $.50 | $1.40 |

The preference stock (which is senior) is redeemable at $10.00 per share, and the preferred stock at $24.00 per share on or after March 1, 1971. The aggregate redemption requirements (equivalent to aggregate liquidation requirements) exceed the stated value by $65,054,000 at December 31, 1969. There is no restriction on retained earnings due to such excess.

Each share of preferred stock is convertible into 9/10 of a share of common stock. At December 31, 1969, 2,470,995 shares of common stock were reserved for such conversion right.

During 1969—5,400 shares of common stock were issued upon the exercise of options, having an aggregate purchase price of $72,000 under the Company's Employees' Share Purchase Plan which has terminated; and 1,148 shares were issued upon conversions of 6,335 shares of preference stock. At December 31, 1969 none of the Company's common stock was subject to options and the conversion right of the preference stock expired on December 31, 1969.

**Capital Surplus**

Capital surplus at December 31, 1968, was adjusted by $3,351,000 as a result of pooling of interests. During 1969, capital surplus was increased $68,000 resulting from exercises of options and conversions of preference stock and charged $710,000 for costs incident to pooling of interests.

**Retirement Plans**

The Company has a trusteed noncontributory pension plan for most of its United States employees. Charges to production costs and operating expenses for pension costs in the year ended December 31, 1969, amounted to $1,500,000. No contribution was made to the pension trust during the year since none was required. Costs of benefits accrued under other plans of subsidiaries, which are provided and funded currently, are not significant.

**Contingent Liabilities, etc.**

The in bond inventory is subject to payment of excise taxes upon removal from Government controlled premises.

The Company and certain of its subsidiaries are contingently liable under certain contracts, letters of credit, and litigation now pending. The Company considers that the settlement of these contingencies will not involve amounts that are material in relation to the Company's consolidated financial position.

There is presently pending in the United States District Court for the Southern District of New York a civil antitrust suit filed on April 25, 1966, by the United States Department of Justice against the Company and its subsidiary, The Buckingham Corporation, asserting that the Company's acquisition of shares of The Buckingham Corporation's outstanding stock on August 31, 1964, was a violation of the Clayton Act. The suit seeks, in part, an order requiring the Company to divest itself of its interest in The Buckingham Corporation. The Company and The Buckingham Corporation have each filed answers denying the material allegations of the complaint and asserting, in addition, other affirmative defenses to the action. The case is presently on the trial calendar. No trial date has yet been fixed. Discussions between the Company and the Department of Justice as to a consent decree in the action are currently pending.

Schenley Industries, Inc. and
Consolidated Subsidiary Companies

## Statement of Changes in Working Capital

| | Year Ended December 31, 1969 | Four Months Ended December 31, 1968 | Year Ended August 31, 1968 |
|---|---|---|---|
| **Working Capital at Beginning of Period** | $319,314,000 | $322,171,000 | $323,062,000 |
| **Additions:** | | | |
| Net income | 25,263,000 | 4,924,000 | 21,017,000 |
| Add (Deduct): | | | |
| Depreciation | 4,026,000 | 1,267,000 | 3,580,000 |
| Deferred taxes | 1,258,000 | 80,000 | (643,000) |
| Undistributed share of Seager Evans & Co. Ltd. earnings | (643,000) | (213,000) | (589,000) |
| Other—net | 100,000 | (359,000) | 1,294,000 |
| | 30,004,000 | 5,699,000 | 24,659,000 |
| **Deductions:** | | | |
| Additions to plant and property | 3,987,000 | 1,381,000 | 7,181,000 |
| Reduction in long-term debt | 2,000,000 | 1,250,000 | 4,750,000 |
| Additions to investments, etc. | 15,489,000 | — | 434,000 |
| Cash dividends | 14,854,000 | 5,925,000 | 13,185,000 |
| Costs incident to pooling of interests | 710,000 | — | — |
| | 37,040,000 | 8,556,000 | 25,550,000 |
| **Working Capital at End of Period** | $312,278,000 | $319,314,000 | $322,171,000 |

See Notes to Financial Statements

## Accountants' Opinion

To the Board of Directors and
the Shareholders of Schenley Industries, Inc.:

We have examined the financial statements of Schenley Industries, Inc. and consolidated subsidiary companies for the year ended December 31, 1969. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of wholly-owned subsidiaries in Canada, which are included in consolidation, nor the financial statements of Seager Evans & Co. Ltd., a 75%-owned British subsidiary which is not consolidated. With respect to such subsidiaries, we have been furnished with reports of other accountants.

In our opinion, based on our examination and the reports of other accountants previously referred to, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings, and changes in working capital present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1969 and the results of their operations and changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

HASKINS & SELLS

New York, N. Y.
March 3, 1970

A1362

# LEADING SCHENLEY PRODUCTS

**STRAIGHT BOURBON**

Ancient Age
Ancient Ancient Age
Belmont
Champion
Charcoal Perfected
Cream of Kentucky
J. W. Dant
Echo Spring
I. W. Harper
Old Charter
Olde Bourbon
Old Quaker
Old Stagg

**BOTTLED-IN-BOND BOURBON**

J. W. Dant
I. W. Harper
Old Charter

**BLENDED WHISKEY**

Cream of Kentucky
J. W. Dant
Golden Wedding
Melrose Rare
Park & Tilford Reserve
Red Satin
Schenley Reserve
Three Feathers

**SCOTCH WHISKY**

J. W. Dant
Dewar's "White Label"
Long John
Park & Tilford Special Selection

**CANADIAN WHISKY**

Grande Canadian
MacNaughton
O.F.C.
Order of Merit

**TENNESSEE WHISKY**

George Dickel

**BRANDY**

J. Bavet
Bonaparte (France)
Coronet VSQ
Otard Cognac (France)
Stock '84 (Italy)

**VODKA**

J. W. Dant
Park & Tilford
Samovar
Schenley

**GIN**

J. W. Dant
Melrose
Park & Tilford
Plymouth (England)
Schenley Dry

**RUM**

Carioca (Puerto Rico)
Cruzan (Virgin Islands)

**TEQUILA**

Olé (Mexico)

**LIQUEURS**

Cherristock (Italy)
J. W. Dant Cordials
DuBouchett Cordials
Stock Cordials (Italy)

**APERITIFS AND VERMOUTH**

Cresta Blanca Dry and Sweet Vermouth
Dubonnet Red and Blonde
Lillet (France)
Roma Dry and Sweet Vermouth
Stock Dry and Sweet Vermouth (Italy)

**WINES**

Bandor and Akiva (Denmark)
Casal Garcia (Portugal)
Cresta Blanca
Joseph Drouhin (France)
de Ladoucette Chateau du Nozet (France)
Mateus Rosé (Portugal)
Roma

**COCKTAILS**

J. W. Dant
Schenley

**CHAMPAGNE**

Cook's Imperial
Cresta Blanca
Krug (France)

**O.F.C. In New Dress**—*To increase its share of the market for premium, bottled-in-Canada Canadian whiskies, Schenley in 1969 repackaged its O.F.C. in a gracefully tapered Dominion "teardrop" bottle with a Certificate of Age booklet. The cork closure—a hallmark of quality for fine vintage wines and brandies—is unique for Canadian or U. S. whiskies.*

A1363

WHISKEY WITH AGE IN ITS FLAVOR
OLD CHARTER
Kentucky Straight Bourbon Whiskey, distilled from fine grain
SEVEN YEARS OLD
6 YEARS
OLDE BOURBON
J.W. HARPER
KENTUCKY STRAIGHT BOURBON WHISKEY
Ancient Age
Kentucky Straight Bourbon Whiskey
Carefully distilled according to the finest old traditions
86 PROOF
DISTILLED & BOTTLED BY ANCIENT AGE DISTILLING
FRANKFORT, KENTUCKY
SIX YEARS OLD
Canadian O.F.C.
CANADIAN WHISKY
A BLEND
Six Years Old
and Blended and bottled under the Canadian Government by
Schenley Distilleries Ltd.
OLD CANADA
PROOF
CANADA
GRANDE CANADIAN
CORON
VSO
Brandy
Connoisseurs will delight in this grape brandy of very
bottled for sole distrib
BRANDY DIST
NEW YORK, N. Y.
DUBONN
Schenley
RESERVE
Blended Whiskey
Lighter and smoother
This rare whiskey reflects the Golden Age of Elegance
Schenley
Bottled by
SCHENLEY, PA. FRESNO, CAL.
& LAWRENCEBURG, IND.
STRAIGHT WHISKEY
EIGHT (8) YEARS OLD
BLENDED WITH 35% GRAIN
J.W.HAR
IMPORTED
Canadian
MACNAUGHTON
CANADIAN WHISKY
A BLEND
Distilled and Blended
of the
John MacNaughton
KENTUCKY BOURBON
ECHO SPR
Straight KENTUCKY BOURBON
MATEUS
50 Gold Prize Medals
50 Gold Prize Medals
"White Label"
DEWAR'S
BLENDED SCOTCH WHISKY
100% SCOTCH WHISKIES
PRODUCT OF SCOTLAND
BLENDED AND BOTTLED BY
Dewar & Sons Ltd
80 PROOF
IMPORTED
STOCK '84
BRANDY
DISTILLED AND AGED IN ITALY BY
Distillerie Stock S.p.A.
TRIESTE (ITALY)
IMPORT COMPANY, NEW YORK N.Y.
Dickel used to say, "Start out—Stay with the best"
THE DISTILLERY
EST'D. 1870
GEORGE
Dickel
TENNESSEE
Sour Mash
WHISKY
No. 12 BRAND
IVORY
MADE IN TENNESSEE
DUBOUCHETT
100 PROOF
GENUINE

A1304

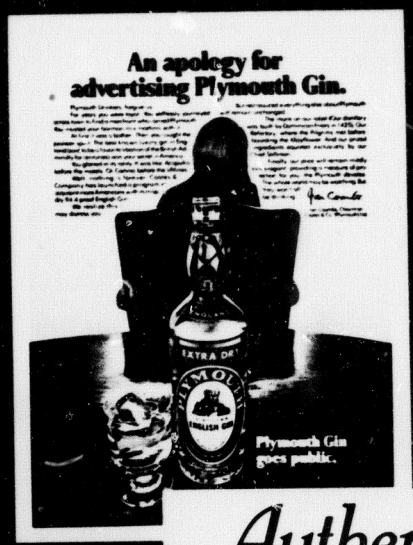
EX. 9

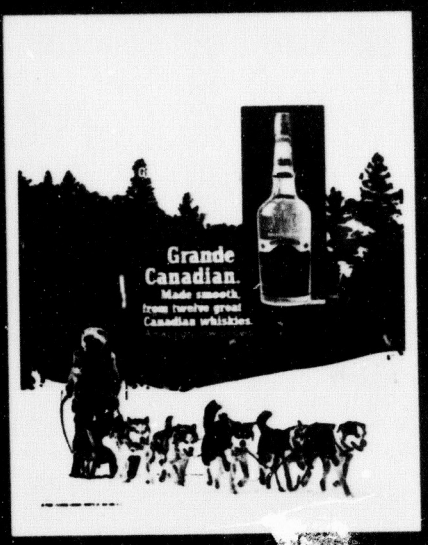
Schenley
INDUSTRIES, INC.

# Annual Report 1970

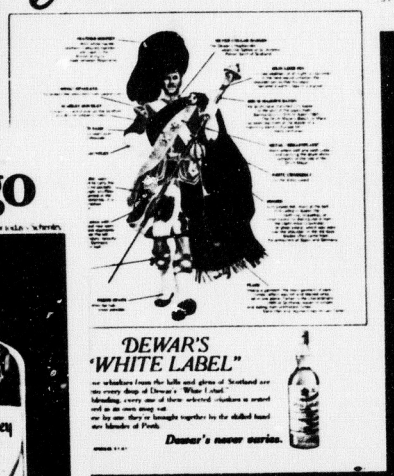
A1365

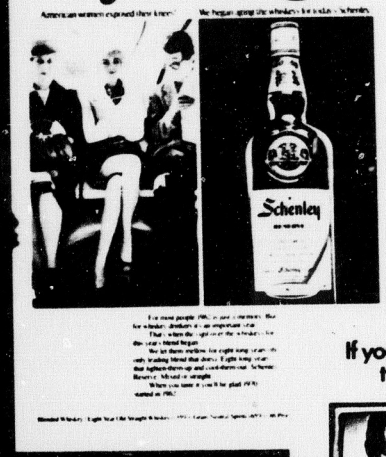
On this page and the inside back cover are reprinted some current Schenley product advertisements. The 18 brands shown are those on which your Company has been concentrating. These ads were prepared for magazines and newspapers. Television — for the wines *Dubonnet* and *Mateus Rosé* — and outdoor billboards are also used extensively.

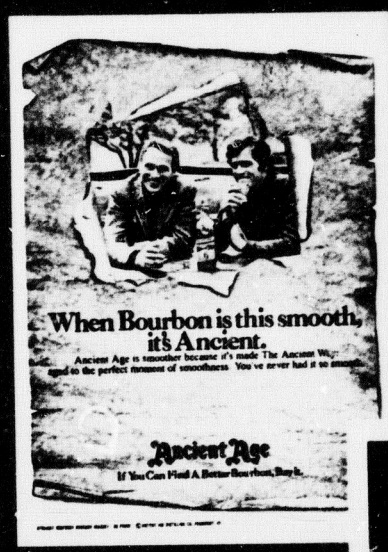


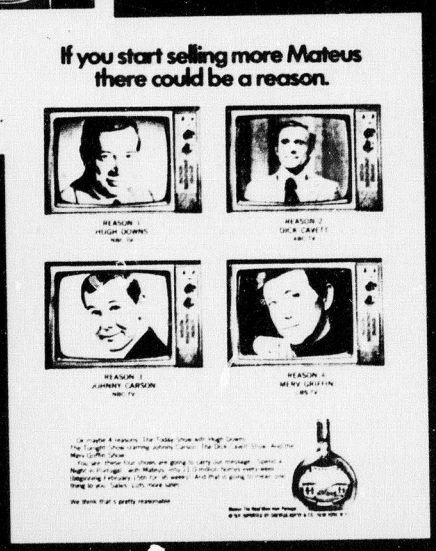


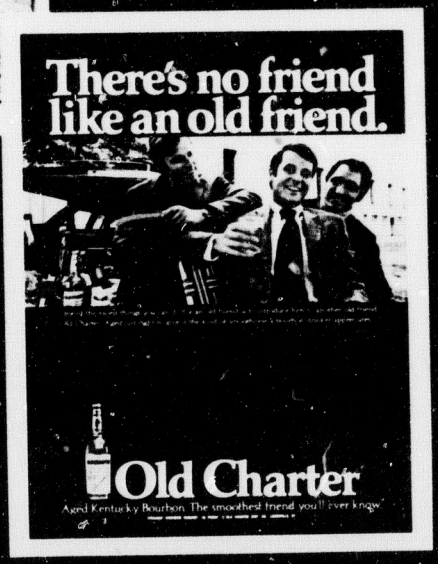
Authentic.





## TO OUR SHAREHOLDERS AND EMPLOYEES—

Schenley continued to make progress in 1970. Much of its satisfactory showing this year, as last year, was related to the concentration of marketing efforts and advertising dollars. The brands that were heavily supported were carefully limited to a comparatively small number with either proven profitability or promising future potential. Eight categories of products were accorded major attention: Scotch, Bourbon, Canadian and Tennessee whiskies, brandy, imported wines, imported gin and aperitif wines.

Outstanding Schenley brands in 1970 were *Dewar's "White Label"* Scotch whisky and *Mateus Rosé*, an imported table wine. *"White Label"* is now the third most popular Scotch in the country.

Industry-wide sales of imported table wines in the U.S. increased substantially in each of the last two years. Several Schenley-imported French, Swiss and Portugese wines in addition to *Mateus Rosé* reported volume increases in 1970 greater than the national average.

Schenley Bourbons — which include the premium Bourbons *Old Charter* and *I. W. Harper*, and also *Ancient Age, J. W. Dant* and *Olde Bourbon* — had a creditable year in 1970. In a review of 1970 liquor consumption and trends, both "Business Week" and the authoritative business and financial weekly "Barron's" listed more Schenley brands (the five foregoing brands) among the top-selling Bourbons in the U.S. than those of any other distiller. But Bourbon consumption in 1970 declined from 1969 in contrast to an increase in 1970 in overall consumption of distilled spirits. This decline in Bourbon consumption reflects the shifting emphasis from domestic to imported whiskies.

Although Schenley has never enjoyed a preeminent position in Canadian whiskies, Schenley's leading Canadians — premium-priced, bottled-in-Canada *O.F.C.*, medium-priced *MacNaughton* and popular priced *Grande Canadian* — continued to show progress.

In the select category of Tennessee whisky in which there are only two brands, both premium-priced, Schenley is continuing its marketing emphasis to establish *George Dickel* as a "call brand."

Schenley's *Coronet VSQ* held its position as one of the two best-selling brandies nation-wide. *Dubonnet*, an aperitif wine, also had a good year. The intensive efforts to promote *Plymouth* gin, a bottled-in-England premium product, continued.

After the close of the year, Schenley completed the sale of certain California wine trademarks, physical properties and inventories to Guild Wine Company of San Francisco. The move is consistent with Schenley's current marketing emphasis on imported, table and specialty wines.

As this Annual Report went to press, Schenley and Northwest Industries, Inc. were negotiating a definitive agreement for the sale to Northwest by Schenley of all of the stock of The Buckingham Corporation, a wholly-owned Schenley subsidiary that is the exclusive United States importer and selling agent of *Cutty Sark* Scotch whisky. The divestiture by Schenley of Buckingham had been sought in a suit by the United States Department of Justice, and on February 25, 1971, a consent decree to effect divestiture to a purchaser approved by the Department was filed with the Court. Buckingham's operations in 1970 accounted for $8,710,000 of Schenley's net income for that year and its disposition, while causing an increase in Schenley's net assets, will result in an immediate decline in Schenley's income.

Your Company's Board of Directors has approved a proposal by Glen Alden Corporation, which presently owns 86 per cent of Schenley's common stock, for a reorganization which would result in Schenley becoming a wholly-owned subsidiary of Glen Alden (except for Schenley's cumulative preference stock). The proposal, which is described more fully in the Notes to Financial Statements accompanying this Report and in a proxy statement which will be mailed to shareholders before Schenley's annual meeting, is subject, among other contingencies, to approval by Schenley shareholders.

Schenley Industries' top management team was strengthened during the year by the election of Irving Hornstein, a veteran of 28 years' service, as a vice president and treasurer. In the latter position he succeeded Thomas J. Hanson, who retired.

---

We feel a deep sense of obligation to Schenley employees; without their zeal, conscientious competence and loyalty, growth years like the two Schenley has just recorded would not be possible. We feel equally obligated to and appreciative of the support given us and Schenley by our shareholders, by our wholesalers, by liquor and wine retailers and by the all-important consuming public.

Bernard Goldberg
PRESIDENT

Isidore A. Becker
CHAIRMAN OF THE BOARD

A1367

# 37TH ANNUAL REPORT

For the year ended December 31, 1970

# SCHENLEY INDUSTRIES, INC.

888 Seventh Avenue, New York, N.Y. 10019

## DIRECTORS

ISIDORE A. BECKER, *Chairman*
DAVID A. CHERNOW
BERNHARDT DENMARK[1]
HOWARD S. FELDMAN
BERNARD GOLDBERG
ALBERT N. GREENFIELD
WALTER O. HEINZE[2]
MILO B. HOPKINS
PAUL A. JOHNSTON
RUSSELL G. SMITH

## OFFICERS

*Chairman of the Board*—ISIDORE A. BECKER
*President*—BERNARD GOLDBERG
*Executive Vice President-Finance and Administration; Comptroller*—DAVID A. CHERNOW
*Executive Vice President-Sales and Marketing*—HOWARD S. FELDMAN
*Vice President-Cooperage*—EDGAR R. DEUTSCHE
*Vice President-Administration*—HARRY ORENSTEIN
*Vice President-Manufacturing*—ADOLPH SLONE
*Vice President and Treasurer*—IRVING HORNSTEIN
*Secretary; General Resident Counsel*—MILTON B. SEASONWEIN

## TRANSFER AGENTS

*For common and cumulative preference stock:*

Manufacturers Hanover Trust Company
4 New York Plaza, New York, N. Y. 10015

The Corporation Trust Company
15 Exchange Place, Jersey City, N.J. 07302

*For $1.40 cumulative convertible preferred stock:*

Franklin National Bank
130 Pearl Street, New York, N.Y. 10015

## REGISTRARS

*For common and cumulative preference stock:*

Marine Midland Bank—New York
140 Broadway, New York, N.Y. 10015

The First Jersey National Bank
1 Exchange Place, Jersey City, N.J. 07303

*For $1.40 cumulative convertible preferred stock:*

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza, New York, N.Y. 10015

## GENERAL COUNSEL

Fried, Frank, Harris, Shriver & Jacobson
120 Broadway, New York, N.Y. 10005

(1) Resigned February 23, 1971
(2) Will not be a candidate for reelection

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

# Financial Highlights

| | 1970 | 1969 |
|---|---|---|
| **Sales** | $669,337,000 | $643,075,000 |
| **Net Income** | 27,183,000 | 25,263,000 |
| **Earnings Per Common Share:** | | |
| Primary | 3.01 | 2.78 |
| Diluted | 2.64 | 2.45 |
| **Dividends Paid** | 14,440,000 | 14,854,000 |
| **Taxes** (includes Federal income, excise and social security taxes and import duties; state income and other state and local taxes) | 364,000,000 | 349,000,000 |
| **Book Value Per Common Share** | 35.48 | 34.04 |
| **Average Number of Common Shares Outstanding** | 7,912,414 | 7,803,878 |

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

## Balance Sheet

| | December 31, 1970 | December 31, 1969 |
|---|---|---|
| **Current Assets:** | | |
| Cash, including certificates of deposit | $ 56,078,000 | $ 54,126,000 |
| Marketable securities, at cost, which approximates market | 15,888,000 | 12,357,000 |
| Receivables, less reserves | 125,977,000 | 131,745,000 |
| Inventories: | | |
| Whiskey, other spirits, and wine, at cost: | | |
| In bond | 247,763,000 | 269,023,000 |
| Tax paid | 24,985,000 | 25,636,000 |
| Other products, materials and supplies, at lower of cost or market | 30,127,000 | 25,176,000 |
| | 302,875,000 | 319,835,000 |
| **Total current assets** | 500,818,000 | 518,063,000 |
| **Investments:** | | |
| Seager Evans & Co., Ltd., at equity | 19,573,000 | 19,541,000 |
| Glen Alden Corporation (parent company) 6% debentures due 1988, at cost | 13,784,000 | 11,605,000 |
| Other investments, etc., at cost | 9,239,000 | 6,882,000 |
| | 42,596,000 | 38,028,000 |
| **Plant and Property:** | | |
| Land, buildings, machinery, equipment, etc. | 119,768,000 | 117,719,000 |
| Less accumulated depreciation | 70,203,000 | 68,537,000 |
| | 49,565,000 | 49,182,000 |
| **Prepaid and Deferred Charges** | 2,855,000 | 3,568,000 |
| **Goodwill, Brands and Trademarks** | 18,539,000 | 18,714,000 |
| | $614,373,000 | $627,555,000 |

See Notes to Financial Statements

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| | December 31, 1970 | December 31, 1969 |
|---|---|---|
| **Current Liabilities:** | | |
| Notes payable — short-term | $110,750,000 | $136,400,000 |
| Current maturities of long-term debt | 2,000,000 | 2,000,000 |
| Accounts payable | 19,370,000 | 21,291,000 |
| Accrued liabilities | 36,793,000 | 30,949,000 |
| Accrued Federal income taxes | 5,597,000 | 8,223,000 |
| Dividends payable | 3,725,000 | 3,732,000 |
| **Total current liabilities** | 178,235,000 | 202,595,000 |
| **Long-Term Debt** | 80,000,000 | 82,000,000 |
| **Deferred Taxes** | 2,255,000 | 3,851,000 |
| **Other Liabilities** | 7,488,000 | 5,588,000 |
| **Shareholders' Equity:** | | |
| Preference and preferred stocks (preference on involuntary liquidation $62,909,000 and $67,869,000) | 2,608,000 | 2,815,000 |
| Common stock—authorized 20,000,000 shares of $.93⅓ par value; issued 9,604,053 and 9,418,133 shares | 8,964,000 | 8,790,000 |
| Capital surplus | 62,405,000 | 62,241,000 |
| Retained earnings | 307,216,000 | 294,473,000 |
| | 381,193,000 | 368,319,000 |
| Less treasury common stock (1,612,276 shares) and preference and preferred stocks, at cost | 34,798,000 | 34,798,000 |
| **Total shareholders' equity** | 346,395,000 | 333,521,000 |
| | $614,373,000 | $627,555,000 |

See Notes to Financial Statements

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

## Statement of Income

| | Year Ended December 31, 1970 | Year Ended December 31, 1969 |
|---|---|---|
| **Income:** | | |
| Net sales | $669,337,000 | $643,075,000 |
| Other income—net | 2,484,000 | 3,153,000 |
| | 671,821,000 | 646,228,000 |
| **Income Deductions:** | | |
| Cost of goods sold | 525,353,000 | 504,718,000 |
| Selling, advertising and administrative expenses | 82,223,000 | 77,233,000 |
| Interest expense—net | 12,912,000 | 14,144,000 |
| Provision for Federal taxes on income | 24,150,000 | 24,870,000 |
| | 644,638,000 | 620,965,000 |
| **Net Income** | $ 27,183,000 | $ 25,263,000 |
| **Earnings Per Common Share:** | | |
| Primary (after preference and preferred dividend requirements) | $ 3.01 | $ 2.78 |
| Diluted (assumes conversion of all convertible securities) | $ 2.64 | $ 2.45 |

## Statement of Retained Earnings

| | Year Ended December 31, 1970 | Year Ended December 31, 1969 |
|---|---|---|
| **Balance—at Beginning of Year** | $294,473,000 | $284,064,000 |
| **Add—(Deduct):** | | |
| Net income for the year | 27,183,000 | 25,263,000 |
| Cash dividends declared: | | |
| Preference | (99,000) | (100,000) |
| Preferred (net of Glen Alden Corporation, parent company, contribution of $369,000 in 1970) | (3,261,000) | (947,000) |
| Common ($1.40 and $1.35 per share) | (11,080,000) | (10,513,000) |
| Cash dividends of pooled company prior to acquisition | — | (3,294,000) |
| **Balance—at End of Year** | $307,216,000 | $294,473,000 |

See Notes to Financial Statements

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1970

## PRINCIPLES OF CONSOLIDATION

All significant subsidiary companies have been consolidated in the accompanying financial statements except Seager Evans & Co., Ltd., a 75%-owned subsidiary in Great Britain. The Company has stated its investment in Seager at the amount of its equity in underlying net assets. The Company has included in Other income-net, its equity in the earnings of Seager, $860,000 and $1,363,000 for the years ended December 31, 1970 and 1969, respectively.

To facilitate comparisons with the current year, certain minor amounts in the prior year have been reclassified with no effect on net income.

## PLANT AND PROPERTY

Plant and property, stated at cost, consist of the following:

| | December 31, | |
|---|---|---|
| | 1970 | 1969 |
| Land | $ 3,700,000 | $ 3,434,000 |
| Buildings and improvements | 55,699,000 | 54,147,000 |
| Machinery and equipment | 51,048,000 | 50,574,000 |
| Other | 9,321,000 | 9,564,000 |
| | $119,768,000 | $117,719,000 |

For financial statement reporting, depreciation is charged to production costs and operating expenses based, principally, upon the use of the straight-line method at specific rates.

## LONG-TERM DEBT

Long-term debt at December 31, 1970 is comprised of the following loans from insurance companies:

| | |
|---|---|
| Due March 1, 1979 at 6.5% | $71,500,000 |
| Due November 1, 1975 at 3% (prepayments of $2,000,000 due annually, until maturity) | 8,500,000 |
| | $80,000,000 |

The agreements relating to the long-term debt contain certain limitations with respect to additional borrowings. Under the agreements, payments for dividends and the acquisition of the Company's capital stock are restricted to the sum of $79,910,000 at December 31,1970.

## DEFERRED TAXES

Deferred taxes represent tax effects of items reported for tax purposes in periods different from those for book purposes. Such items include depreciation, amortization, deferred compensation and pension expense.

## SHAREHOLDERS' EQUITY

At December 31, 1970, the preference and preferred stocks comprised the following:

| | Cumulative Preference Stock | $1.40 Cumulative Convertible Preferred Stock |
|---|---|---|
| Par value | $.35 | $1.00 |
| Authorized | 4,000,000 | 2,745,550 |
| Issued | 197,594 | 2,538,864 |
| Held in treasury | 486 | 3,100 |
| Annual dividend rate | $.50 | $1.40 |

The preference stock (which is senior) is redeemable at $10.00 per share, and the preferred stock at $24.00 per share on or after March 1, 1971. The aggregate redemption requirements (equivalent to aggregate liquidation requirements) exceeded the stated values by $60,301,000 at December 31, 1970. There is no restriction on retained earnings due to such excess.

Each share of preferred stock is convertible into 9/10 of a share of common stock. During 1970, 185,920 shares of common stock were issued upon conversions of 206,686 shares of preferred stock. Common stock reserved for conversion rights of preferred stock amounted to 2,284,977 shares at December 31, 1970.

During 1970, capital surplus was increased $33,000 resulting from the conversions of preferred stock and $131,000 representing a capital contribution by Glen Alden Corporation, parent company.

## RETIREMENT PLANS

The Company has a trusteed noncontributory pension plan for most of its United States employees. The total pension cost for the year ended December 31, 1970, charged to production costs and operating expenses, was $2,038,000, which includes amortization over a 30-year period of the amount relating to prior service cost which exceeded the pension fund plus balance sheet accruals at January 1, 1970. The Company's policy is to fund pension costs as required under federal income tax regulations. Effective January 1, 1970 the plan was amended, providing additional benefits for participants and reducing the waiting period required to participate in the plan. In addition, the interest assumptions were revised. These changes had the effect of increasing pension expense for the year 1970 by approximately $400,000. Costs of benefits accrued under the other plans of subsidiaries which are provided and funded currently, are not significant.

## CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS, ETC.

The in bond inventory is subject to payment of excise taxes upon removal from Government controlled premises.

The Company and certain of its subsidiaries are contingently liable under certain contracts, letters of credit, and litigation now pending. The Company considers that the settlement of these contingencies will not involve amounts that are material in relation to its consolidated financial position.

There is presently pending in the United States District Court for the Southern District of New York a civil anti-trust suit filed on April 25, 1966, by the United States Department of Justice against the Company and its subsidiary, The Buckingham Corporation, asserting that the Company's acquisition of shares of The Buckingham Corporation's outstanding stock on August 31, 1964, was a violation of the Clayton Act. The suit seeks, in part, an order requiring the Company to divest itself of its interest in The Buckingham Corporation.

A proposed consent decree was filed with the Court on February 25, 1971, which, among other things, would require the Company to divest itself of all its interest in The Buckingham Corporation by June 30, 1972 to a purchaser approved by the Department, and would prohibit the Company, for a period of ten years, from acquisition, without government or court approval, of rights to import and sell or produce and sell any brand of Scotch whisky other than a brand produced by or for John Dewar & Sons, Ltd. and from acquiring without government or court approval any stock, assets or other financial interest in any company (other than Seager Evans & Co., Ltd. or any of its subsidiaries) which holds or controls the right to produce and sell or import and sell any brand of Scotch whisky in the United States.

A memorandum of understanding dated October 30, 1970 has been entered into between Northwest Industries, Inc. and the Company which provides for the sale, to the former, of all the stock of The Buckingham Corporation for a price of $120,000,000 in cash and notes. Negotiations with respect to a definitive agreement for the sale are currently pending. Such sale, upon consummation, will result in a significant gain. Buckingham revenues for 1970 were $60,093,000 and net income was $8,710,000.

The Board of Directors of the Company has approved a proposed reorganization with Glen Alden Corporation, under the terms of which the Company will become a wholly-owned subsidiary of Glen Alden (except for the cumulative preference stock which will remain outstanding). In the proposed reorganization $5.00 in cash and $30.00 principal amount of 7½%-14 year Glen Alden subordinated debentures will be issued for each share of common stock of the Company and $4.50 in cash and $27.00 principal amount of such debentures will be issued for each share of $1.40 cumulative convertible preferred stock. The proposed reorganization is subject to the execution of a definitive agreement, approval of lending institutions and the Company's shareholders, and certain other contingencies. Several derivative stockholders' suits have been instituted against the Company, Glen Alden, and directors of the two companies, alleging, among other things, that the value of the securities and cash to be received by minority stockholders of the Company pursuant to the reorganization is unfairly low, and seeking preliminary and final injunctions against the reorganization, compensatory and punitive damages and attorneys' fees.

On February 26, 1971, the Company sold to Guild Wine Company for a price of $14,000,000, subject to adjustment, certain assets connected with its wine business, the disposition of which will not significantly affect the results of the Company's operations. The sale resulted in a gain.

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

## Statement of Changes in Working Capital

| | Year Ended December 31, 1970 | Year Ended December 31, 1969 |
|---|---|---|
| **Working Capital at Beginning of Year** | $315,468,000 | $321,424,000 |
| **Additions:** | | |
| Net income | 27,183,000 | 25,263,000 |
| Depreciation | 3,766,000 | 4,026,000 |
| Deferred tax provision | (86,000) | 984,000 |
| Undistributed share of Seager Evans & Co., Ltd. earnings | (32,000) | (643,000) |
| | 30,831,000 | 29,630,000 |
| Prepaid and deferred charges | 712,000 | (44,000) |
| Other liabilities | 1,900,000 | 1,356,000 |
| Other—net | (1,204,000) | 142,000 |
| | 32,239,000 | 31,084,000 |
| **Deductions:** | | |
| Cash dividends | 14,440,000 | 14,854,000 |
| Additions to plant and property—net | 4,148,000 | 3,987,000 |
| Reduction in long-term debt | 2,000,000 | 2,000,000 |
| Additions to investments, etc. | 4,536,000 | 15,489,000 |
| Costs incident to pooling of interests | — | 710,000 |
| | 25,124,000 | 37,040,000 |
| **Working Capital at End of Year** | $322,583,000 | $315,468,000 |

See Notes to Financial Statements

## Accountants' Opinion

To the Board of Directors and
the Shareholders of Schenley Industries, Inc.:

We have examined the financial statements of Schenley Industries, Inc. and consolidated subsidiary companies for the year ended December 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of wholly-owned subsidiaries in Canada, which are included in consolidation, nor the financial statements of Seager Evans & Co., Ltd., a 75%-owned British subsidiary which is not consolidated. With respect to such subsidiaries, we have been furnished with reports of other accountants.

In our opinion, based on our examination and the above-mentioned reports of other accountants, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings, and changes in working capital present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1970 and the results of their operations and changes in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York, N.Y.
February 25, 1971
(certain information in the final Note to Financial Statements being as of a later date.)

A1374

# The Canadians Canadians are proud of.

# O.F.C.

Imported Canadian Whisky

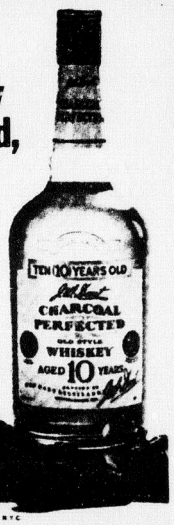
# Meet Dubonnet's newest salesmen

## This year, they'll be helping to make Dubonnet the talk of the town.

Johnny Carson and Hugh Downs have just joined Dubonnet's sales force. Beginning February 15, they'll be introducing Dubonnet commercials to 8.0 million homes a week for 36 weeks on NBC-TV's Today Show, and the Tonight Show starring Johnny Carson. And backing up Hugh and Johnny will be a heavy schedule of local spots.

So if you noticed more people asking for Dubonnet last year, prepare yourself. This year, with Johnny and Hugh on the job, Dubonnet should be the talk of the town.

# How much would you pay for 10-year-old, charcoal-mellowed whiskey?




## Well, don't!

J. W. Dant now available for about $1.00 less than your wildest dream.

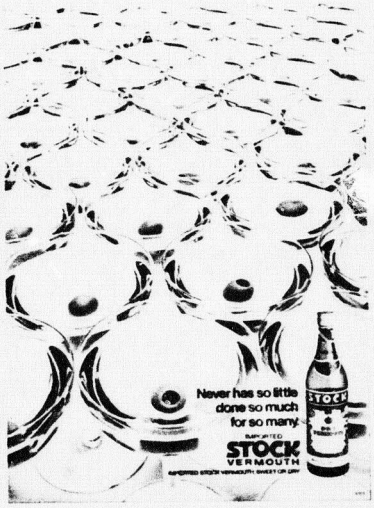
CHARCOAL PERFECTED WHISKEY • 80 PROOF • © J. W. DANT DISTILLERS CO., N.Y.C.

| He likes: | She likes: |
|---|---|
| Baseball | Tennis |
| Cookouts | Picnics |
| Jogging | Strolling |
| Sports cars | Convertibles |
| Fishing | Sailing |
| City streets | Country roads |
| The price | The taste |

Now something they can both agree on.

IMPORTED CANADIAN MacNAUGHTON

The He and She Premium Canadian.




# If P&T can put out a $7 scotch for $5, why can't anyone?

They probably can. But why should they? It's not their $2.

P&T Scotch is distilled in Scotland from Scottish barley malt. Then it's filtered and blended with other Scottish grain spirits. Just like the $7 scotches.

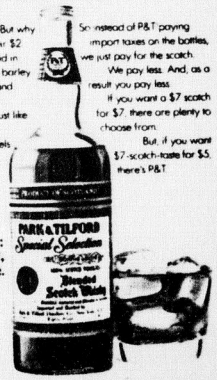
But P&T Scotch travels to America in barrels instead of bottles.

So instead of P&T paying import taxes on the bottles, we just pay for the scotch.

We pay less. And, as a result you pay less.

If you want a $7 scotch for $7, there are plenty to choose from.

But, if you want $7-scotch-taste for $5, there's P&T.




P&T Scotch: Once you taste it, it's expensive.

Nine reasons you should spend more for a Scotch you've probably never heard of.

Long John. Aged 8 years.

Nine reasons you should spend more for a Scotch you've probably never heard of.

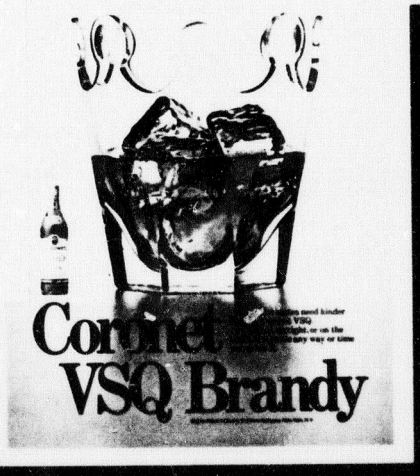
Long John. Aged 8 years.

Nine reasons you should spend more for a Scotch you've probably never heard of.

Long John. Aged 8 years.

# What is George Dickel?

Kind taste and Coronet.



A1375

# LEADING SCHENLEY PRODUCTS

**STRAIGHT BOURBON**
Ancient Age
Ancient Ancient Age
Belmont
Champion
Charcoal Perfected
Cream of Kentucky
J. W. Dant
Echo Spring
I. W. Harper
Old Charter
Olde Bourbon
Old Quaker
Old Stagg

**BOTTLED-IN-BOND BOURBON**
J. W. Dant
I. W. Harper
Old Charter

**BLENDED WHISKEY**
Cream of Kentucky
J. W. Dant
Golden Wedding
Melrose Rare
Park & Tilford Reserve
Red Satin
Schenley Reserve
Three Feathers

**SCOTCH WHISKY**
J. W. Dant
Dewar's "White Label"
Long John
P. & T. Special Selection

**CANADIAN WHISKY**
Grande Canadian
MacNaughton
O.F.C.

**TENNESSEE WHISKY**
George Dickel

**BRANDY**
J. Bavet
Coronet VSQ
Otard Cognac (France)
Stock '84 (Italy)

**VODKA**
J. W. Dant
Park & Tilford
Samovar
Schenley

**GIN**
J. W. Dant
Melrose
Park & Tilford
Plymouth (England)
Schenley Dry

**RUM**
Carioca (Puerto Rico)
Cruzan (Virgin Islands)

**TEQUILA**
Olé (Mexico)

**LIQUEURS**
Cherristock (Italy)
J. W. Dant Cordials
DuBouchett Cordials
Stock Cordials (Italy)

**APERITIFS AND VERMOUTH**
Dubonnet Red and Blonde
Lillet (France)
Stock Dry and
Sweet Vermouth (Italy)

**WINES**
Bandor and Akiva (Denmark)
Casal Garcia (Portugal)
Joseph Drouhin (France)
de Ladoucette Chateau
du Nozet (France)
Mateus Rosé (Portugal)

**COCKTAILS**
J. W. Dant
Schenley

**CHAMPAGNE**
Krug (France)

EX. 10

# ANNUAL REPORT 1971

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Ancient Ancient Age 10 Bourbon
Schen
AA
STRAIGHT KENTUCKY BOURBON
Ancient Age
Canadian O.F.C.
OLD CHARTER
KENTUCKY STRAIGHT
CORONET VSO Brandy
CORONET BRANDY
MATEUS
J.W. Dant SPECIAL RESERVE KENTUCKY STRAIGHT BOURBON WHISKY
CHATEAU DE MERCEY
Rivera ROSE CASTEL DEL MONTE
RHUM SAINT JAMES
STOCK DRY VERMOUTH
SEAGERS SPECIAL DISTILLED DRY GIN
ACKERMAN
J. Baret
SA'ALA COFFEE LIQUEUR COGNAC
Cassis
VERRAZANO
White Label
CARIOCA PUERTO RICAN RUM
CRAO VASCO
CHERRY BANDOR
SIGLO
Lobel Blanc
Monopole Red Top
FAIVELEY
STOCK STOCK '84 BRANDY
Nebbiolo d'Alba
CHATEAU TERMOULET
LILLET
BONNES MARES
Gram Bolse
DUBONNET BLONDE
EXTRA DRY
GRAM KENTUCKY BOURBON
DUCHALET CHOCOLAT MENTHE
Liebfraumilch
GOLD MEDAL I.W. HARPER KENTUCKY STRAIGHT BOURBON WHISKEY
TEN (10) YEARS OLD OLD CHARTER TEN YEARS OLD
OLD STAGG KENTUCKY STRAIGHT BOURBON WHISKEY
GEORGE Dickel TENNESSEE Sour Mash WHISKY OLD No 8 BRAND
IMPORTED GRANDE CANADIAN CANADIAN WHISKY
Genuine OLD FASHIONED OLDE BOURBON FINE STRAIGHT BOURBON WHISKEY

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# 38TH ANNUAL REPORT

For the year ended December 31, 1971

## SCHENLEY INDUSTRIES, INC.

888 Seventh Avenue, New York, N.Y. 10019

### DIRECTORS

ISIDORE A. BECKER, *Chairman*
DAVID A. CHERNOW
HOWARD S. FELDMAN
BERNARD GOLDBERG
ALBERT N. GREENFIELD
MILO B. HOPKINS
PAUL A. JOHNSTON
RUSSELL G. SMITH

### OFFICERS

*Chairman of the Board*—ISIDORE A. BECKER
*President*—BERNARD GOLDBERG
*Executive Vice President-Finance and Administration; Comptroller*—DAVID A. CHERNOW
*Executive Vice President-Sales and Marketing*—HOWARD S. FELDMAN
*Vice President-Cooperage*—EDGAR R. DEUTSCHE
*Vice President-Administration*—HARRY ORENSTEIN
*Vice President-Manufacturing*—ADOLPH SLONE
*Vice President and Treasurer*—IRVING HORNSTEIN
*Secretary; General Resident Counsel*—MILTON B. SEASONWEIN

### TRANSFER AGENT

*For cumulative preference stock:*
Manufacturers Hanover Trust Company
4 New York Plaza, New York, N.Y. 10015

### REGISTRAR

*For cumulative preference stock:*
Marine Midland Bank—New York
140 Broadway, New York, N.Y. 10015

### GENERAL COUNSEL

Fried, Frank, Harris, Shriver & Jacobson
120 Broadway, New York, N.Y. 10005

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

## Balance Sheet

| | December 31, 1971 | December 31, 1970 |
|---|---|---|
| **Current Assets:** | | |
| Cash, including certificates of deposit of $26,000,000 and $4,000,000 | $ 59,515,000 | $ 56,078,000 |
| Marketable securities, at cost, which approximates market | 15,999,000 | 14,088,000 |
| Receivables, less reserves | 124,027,000 | 125,977,000 |
| Inventories: | | |
| Whiskey, other spirits, and wine, at cost: | | |
| In bond | 207,553,000 | 247,763,000 |
| Tax paid | 34,188,000 | 24,985,000 |
| Other products, materials and supplies, at lower of cost or market | 19,536,000 | 30,127,000 |
| | 261,277,000 | 302,875,000 |
| **Total Current Assets** | 460,818,000 | 499,018,000 |
| **Investments:** | | |
| Long John International Ltd., at equity | 20,210,000 | 19,573,000 |
| Glen Alden Corporation (Parent company) 6% debentures due 1988, at cost | 21,797,000 | 13,784,000 |
| Other investments, etc., at cost (Includes in 1971 funds segregated for appraisal claims of former shareholders) | 36,290,000 | 11,039,000 |
| | 78,297,000 | 44,396,000 |
| **Plant and Property:** | | |
| Land, buildings, machinery, equipment, etc. | 107,637,000 | 119,768,000 |
| Less accumulated depreciation | 61,490,000 | 70,203,000 |
| | 46,147,000 | 49,565,000 |
| **Prepaid and Deferred Charges** | 2,122,000 | 2,855,000 |
| **Goodwill, Brands and Trademarks** | 3,082,000 | 18,539,000 |
| | $590,466,000 | $614,373,000 |

See Notes to Financial Statements

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| | December 31, 1971 | December 31, 1970 |
|---|---|---|
| **Current Liabilities:** | | |
| Notes payable—short-term | $ 85,500,000 | $110,750,000 |
| Current maturities of long-term debt | — | 2,000,000 |
| Accounts payable | 16,275,000 | 19,370,000 |
| Accrued liabilities | 43,303,000 | 31,694,000 |
| Accrued Federal income taxes | — | 5,597,000 |
| Dividends payable | 49,000 | 3,725,000 |
| **Total Current Liabilities** | 145,127,000 | 173,136,000 |
| **Long-Term Debt** | 71,500,000 | 80,000,000 |
| **Deferred Taxes** | 2,175,000 | 2,255,000 |
| **Other Liabilities** (Includes in 1971 estimated liability for appraisal claims of former shareholders) | 42,494,000 | 12,587,000 |
| **Shareholders' Equity:** | | |
| Preference stock —Preference on involuntary liquidation $1,976,000 | 69,000 | 69,000 |
| Convertible preferred stock —Preference on involuntary liquidation $60,933,000 in 1970 | — | 2,539,000 |
| Common stock | 9,966,000 | 8,964,000 |
| Capital surplus | 1,870,000 | 62,405,000 |
| Retained earnings | 317,268,000 | 307,216,000 |
| | 329,173,000 | 381,193,000 |
| Less treasury stock | 3,000 | 34,798,000 |
| **Total Shareholders' Equity** | 329,170,000 | 346,395,000 |
| | $590,466,000 | $614,373,000 |

See Notes to Financial Statements

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

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# Statement of Income

| | Year Ended December 31, 1971 | Year Ended December 31, 1970 |
|---|---|---|
| **Income:** | | |
| Net sales | $637,658,000 | $615,494,000 |
| Other income—net | 4,262,000 | 1,982,000 |
| | 641,920,000 | 617,476,000 |
| **Income Deductions:** | | |
| Cost of goods sold | 511,502,000 | 492,931,000 |
| Selling, advertising and administrative expenses | 80,654,000 | 76,631,000 |
| Interest expense—net | 8,945,000 | 13,120,000 |
| Provision for Federal taxes on income | 18,530,000 | 16,321,000 |
| | 619,631,000 | 599,003,000 |
| Income from Continuing Operations | 22,289,000 | 18,473,000 |
| Income from The Buckingham Corporation | 2,723,000 | 8,710,000 |
| Income before Extraordinary Items | 25,012,000 | 27,183,000 |
| Extraordinary Items | 60,024,000 | — |
| **Net Income** | $ 85,036,000 | $ 27,183,000 |

See Notes to Financial Statements

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

# Statements of Capital Surplus and Retained Earnings

| Capital Surplus | Year Ended December 31, 1971 | Year Ended December 31, 1970 |
|---|---|---|
| **Balance—Beginning of Period** | $ 62,405,000 | $ 62,241,000 |
| **Add:** | | |
| Excess Par Value upon Conversion of $1.40 Cumulative Convertible Preferred Stock into Common Stock | 4,000 | 33,000 |
| Capital Contribution by Parent Company | 73,000 | 131,000 |
| | 62,482,000 | 62,405,000 |
| **Deduct:** | | |
| Excess of Cost over Par Value of Treasury Stock (3,100 Preferred Shares and 1,638,076 Common Shares) retired in accordance with Merger Agreement and Plan of Reorganization | 33,976,000 | — |
| Cost of acquiring Preferred and Common Stock in accordance with Merger Agreement and Plan of Reorganization (see Retained Earnings below) | 26,071,000 | — |
| Costs incident to Merger | 565,000 | — |
| **Balance—End of Period** | $ 1,870,000 | $ 62,405,000 |

| Retained Earnings | | |
|---|---|---|
| **Balance—Beginning of Period** | $307,216,000 | $294,473,000 |
| **Net Income** | 85,036,000 | 27,183,000 |
| | 392,252,000 | 321,656,000 |
| **Deduct:** | | |
| Cash Dividends Declared: | | |
| Cumulative Preference Stock (annual rate of $.50 per share) | 99,000 | 99,000 |
| $1.40 Cumulative Convertible Preferred Stock ($.35 and $1.40 per share) (net of Parent Company Contribution of $177,000 in 1971 and $369,000 in 1970) | 705,000 | 3,261,000 |
| Common Stock ($.35 and $1.40 per share) | 2,792,000 | 11,080,000 |
| Cost of acquiring Preferred and Common Stock in accordance with Merger Agreement and Plan of Reorganization (see Capital Surplus above) | 71,388,000 | — |
| **Balance—End of Period** | $317,268,000 | $307,216,000 |

See Notes to Financial Statements

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

# NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1971

## PRINCIPLES OF CONSOLIDATION, ETC.

All significant subsidiary companies have been consolidated in the accompanying financial statements except Long John International Ltd. (formerly Seager Evans & Co., Ltd.), a 75% owned subsidiary in Great Britain. The Company has stated its investment in Long John at the amount of its equity in underlying net assets, and has included in Other income – net, its equity of $1,190,000 and $860,000 in Long John's earnings for the years ended December 31, 1971 and 1970, respectively.

On May 10, 1971, the Company sold, in conformity with an antitrust consent decree, its 100% stock interest in The Buckingham Corporation to Northwest Industries, Inc., for a price of $120,000,000, consisting of $103,000,000 in cash and $17,000,000 principal amount of Northwest 9½% notes maturing March 1, 1979. The purchase price is subject to reduction after December 31, 1975 by reason of the Company's guarantee of a specified amount of "depletions" (i.e., case sales by wholesalers to retailers) of Cutty Sark Scotch Whisky and other Buckingham products during the five years ending December 31, 1975. In connection with the sale, the Company and Glen Alden guaranteed $23,000,000 principal amount of Northwest 9½% notes maturing March 1, 1986 which were simultaneously sold by Northwest to three insurance companies to finance part of the cash portion of the purchase price and $17,000,000 of Northwest notes acquired by the Company and subsequently sold at par plus accrued interest.

The $40,000,000 aggregate principal amount of Northwest 9½% notes guaranteed by the Company and Glen Alden are subordinated in right of payment to $80,000,000 of long-term notes of Northwest issued to certain banks in connection with Northwest's purchase of Buckingham and are secured by a pledge of all the stock of Buckingham, which pledge is subject to a prior pledge of such stock to secure Northwest notes issued to banks. As between the Company and Glen Alden, the Company is primarily liable on the guarantee which extends to March 2, 1979.

On June 17, 1971 as a result of a merger of a wholly-owned subsidiary of Glen Alden with and into the Company, Glen Alden became the owner of all outstanding capital stock of the Company except its cumulative preference stock. In the merger all common and $1.40 cumulative convertible preferred stocks, except for shares as to which appraisal rights were claimed, were converted as follows:

(a) Each outstanding share of common stock (other than those owned by Glen Alden, all of which were cancelled) was converted into $5 in cash and $30 principal amount of Glen Alden 7½% sinking fund subordinated debentures, due 1985.

(b) Each outstanding share of $1.40 cumulative convertible preferred stock was converted into $4.50 in cash and $27 principal amount of such Glen Alden 7½% debentures.

Immediately prior to the reorganization, there were 7,989,501 shares of common stock (including 6,887,089 shares held by Glen Alden) and 2,509,595 shares of $1.40 cumulative convertible preferred stock outstanding. It is estimated that at February 22, 1972 the maximum number of shares which may be entitled to appraisal was approximately 135,000 shares of common stock and 545,000 shares of $1.40 cumulative convertible preferred stock. No final determination has as yet been made under Delaware law of the number of such shares which will qualify for appraisal or the amount which will be payable by the Company in respect thereof.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified with no effect on net income.

## PLANT AND PROPERTY

Plant and property, stated at cost, consist of the following:

| | December 31, 1971 | December 31, 1970 |
|---|---|---|
| Land | $ 2,899,000 | $ 3,700,000 |
| Buildings and improvements | 52,280,000 | 55,699,000 |
| Machinery and equipment | 44,893,000 | 51,048,000 |
| Other | 7,565,000 | 9,321,000 |
| | $107,637,000 | $119,768,000 |

For financial statement reporting, depreciation is charged to production costs and operating expenses based, principally, upon the use of the straight-line method at specific rates.

## LONG-TERM DEBT

Long-term debt at December 31, 1971 amounts to $71,500,000 in 6½% loans from insurance companies due March 1, 1979.

The loan agreement contains certain limitations with respect to additional borrowings and restricts payments for dividends and the acquisition of the Company's capital stock to the sum of $8,866,000 at December 31, 1971.

Certain Glen Alden loan agreements also contain limitations on indebtedness, mergers and certain capital asset transactions by the Company.

## TAXES

Deferred taxes represent tax effects of items reported for tax purposes in periods different from those for book purposes. Such items include depreciation, amortization, deferred compensation and pension expense.

The Company's policy is to reduce the provision for Federal income tax by the amount of the estimated allowable investment credit. The investment credit amounts are not material.

## PREFERENCE, PREFERRED AND COMMON STOCKS

On December 27, 1971 the Company's Certificate of Incorporation was amended to change the authorized Capital Stock of the Company to:

| | |
|---|---|
| Cumulative Preference Stock—35¢ Par Value | 197,594 Shares |
| Common Stock—No Par Value | 200 Shares |

The following table sets forth the status of Preference, Preferred and Common Stocks.

| | Cumulative Preference Stock December 31, | | $1.40 Cumulative Convertible Preferred Stock December 31, | Common Stock December 31, | |
|---|---|---|---|---|---|
| | 1971 | 1970 | 1970 | 1971 | 1970 |
| Par Value | $.35 | $.35 | $1.00 | No Par | $.93⅓ |
| Shares | | | | | |
| Authorized | 197,594 | 4,000,000 | 2,745,550 | 200 | 20,000,000 |
| Issued | 197,594 | 197,594 | 2,538,864 | 200 | 9,604,053 |
| Held in Treasury | 486 | 486 | 3,100 | — | 1,612,276 |
| Annual Dividend Rate | $.50 | $.50 | $1.40 | — | — |

The cumulative preference stock is redeemable at $10 per share.

## RETIREMENT PLANS

The Company has a trusteed noncontributory pension plan for most of its United States employees. The provision for pension cost for the year ended December 31, 1971, charged to production costs and operating expenses, was $2,395,000, which includes amortization over a period not exceeding 30 years of prior service costs not previously provided. The Company's policy is to fund pension costs as required under Federal income tax regulations. Costs of benefits accrued under the other plans of subsidiaries which are provided and funded currently, are not significant.

## EXTRAORDINARY ITEMS

The extraordinary items comprise gain of $72,206,000 (net of applicable income taxes of $13,314,000) from sale of investment in The Buckingham Corporation and certain assets connected with the wine business and provision for loss of $12,182,000 (net of applicable income taxes of $9,842,000) on discontinuance and disposition of certain production facilities and products and approximate decline in market quotation value of a Canadian subsidiary's investment in securities.

## CONTINGENT LIABILITIES

The in bond inventory is subject to payment of excise taxes upon removal from Government controlled premises.

The Company and certain of its subsidiaries are contingently liable under certain contracts, letters of credit, and litigation now pending. The Company considers that the settlement of these contingencies will not involve amounts that are material in relation to its consolidated financial position and operations. See also Principles of Consolidation, etc.

Schenley Industries, Inc.
and Consolidated Subsidiary Companies

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## Statement of Changes in Financial Position

| | Year Ended December 31, 1971 | Year Ended December 31, 1970 |
|---|---|---|
| **Sources** | | |
| **Operations** | | |
| Income before extraordinary items | $ 25,012,000 | $ 27,183,000 |
| Charges (credits) not involving working capital: | | |
| Depreciation | 3,318,000 | 3,766,000 |
| Deferred tax provision | 17,000 | (86,000) |
| Other liabilities | 763,000 | 2,494,000 |
| Undistributed share of Long John International Ltd. earnings | (1,190,000) | (32,000) |
| Other | 897,000 | (492,000) |
| | 28,817,000 | 32,833,000 |
| **Extraordinary Items** | 60,024,000 | — |
| Charges (credits) not involving working capital: | | |
| Investments, properties and businesses sold or discontinued | 21,956,000 | — |
| Deferred tax provision | (1,000,000) | — |
| Other liabilities | 3,500,000 | — |
| | 84,480,000 | — |
| | 113,297,000 | 32,833,000 |
| **Dispositions** | | |
| Cash dividends | 3,596,000 | 14,440,000 |
| Additions to plant and property—net | 4,065,000 | 4,148,000 |
| Additions to investments, etc. | 9,303,000 | 6,336,000 |
| Reduction in long-term debt | 8,500,000 | 2,000,000 |
| | 25,464,000 | 26,924,000 |
| Under Merger Agreement and Plan of Reorganization: | | |
| Cost of acquiring preferred and common stock | 97,459,000 | — |
| Other costs incident to merger | 565,000 | — |
| | 98,024,000 | — |
| | 123,488,000 | 26,924,000 |
| **(Decrease) Increase in Working Capital** | $ (10,191,000) | $ 5,909,000 |
| **Changes in Working Capital** | | |
| Cash and marketable securities | $ 5,348,000 | $ 3,683,000 |
| Receivables | (1,950,000) | (5,768,000) |
| Inventories | (41,598,000) | (16,960,000) |
| Notes payable | 27,250,000 | 25,650,000 |
| Federal income taxes | 5,597,000 | 2,626,000 |
| Accounts payable and accruals | (4,838,000) | (3,322,000) |
| **(Decrease) Increase in Working Capital** | $ (10,191,000) | $ 5,909,000 |

See Notes to Financial Statements

## Accountants' Opinion

To the Board of Directors and
the Shareholders of Schenley Industries, Inc.:

We have examined the financial statements of Schenley Industries, Inc. and consolidated subsidiary companies for the year ended December 31, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of wholly-owned subsidiaries in Canada, which are included in consolidation, nor the financial statements of Long John International Ltd., a 75%-owned British subsidiary which is not consolidated. With respect to such subsidiaries (whose contribution to net income was 3% of the consolidated amount) we have been furnished with reports of other accountants.

In our opinion, based on our examination and the reports of other accountants, the accompanying consolidated balance sheet and statements of income, capital surplus, retained earnings and changes in financial position present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1971 and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Two Broadway
New York, N.Y. 10004
February 24, 1972

# Leading Schenley Products

## STRAIGHT BOURBON

Ancient Age
Ancient Ancient Age
Belmont
Champion
Cream of Kentucky
J. W. Dant
Echo Spring
I. W. Harper
Old Charter
Olde Bourbon
Old Quaker
Old Stagg

## BOTTLED-IN-BOND BOURBON

J. W. Dant
I. W. Harper
Old Charter

## BLENDED WHISKEY

Cream of Kentucky
J. W. Dant
Golden Wedding
Melrose Rare
Schenley Reserve
Three Feathers
XL Xtra Light

## SCOTCH WHISKY

Ancestor
J. W. Dant
Dewar's "White Label"
Long John
P. & T. Special Selection

## CANADIAN WHISKY

Grande Canadian
MacNaughton
O.F.C.

## TENNESSEE WHISKY

Cascade
George Dickel

## BRANDY

J. Bavet
Calvados Busnel (France)
Coronet VSQ
Cusenier (France)
Otard Cognac (France)
Stock '84 (Italy)

## VODKA

J. W. Dant
Samovar
Schenley

## GIN

J. W. Dant
Melrose
Plymouth (England)
Schenley Dry
Seagers (England)

## RUM

Carioca (Puerto Rico)
Cruzan (Virgin Islands)
Ron Extra Fino (Puerto Rico)

## TEQUILA

Olé (Mexico)

## LIQUEURS

Cherristock (Italy)
Cusenier Cordials (France)
J. W. Dant Cordials
DuBouchett Cordials
Duchalet (Switzerland)
SA' ALA (France)
Stock Cordials (Italy)
Strega (Italy)

## APERITIFS AND VERMOUTH

Dubonnet Red and Blonde
Lillet (France)
Stock Dry and Sweet Vermouth (Italy)

## WINES

AGE (Spain)
Ackerman-Laurence (France)
Bandor and Akiva (Denmark)
Bichot (France)
Casal Garcia (Portugal)
Chateau d'Auvernier, Neuchatel (Switzerland)
Comte de Vogué (France)
Cruz Garcia Real Sangria (Spain)
Cupramontana (Italy)
Delas Freres (France)
Joseph Drouhin (France)
J. Faiveley (France)
Franco Fiorina (Italy)
Grao Vasco (Portugal)
Hugel Alsatian (France)
Jumping Deer (Germany)
de Ladoucette (France)
Mateus Rosé (Portugal)
Negrar (Italy)
Okapi—Ait Mogai—Mograbi (Africa)
Rivera (Italy)
Schröder & Schÿler (France)
Siglo (Spain)
P. J. Valckenberg (Germany)
Verrazzano (Italy)
Weingut Guntrum (Germany)

## CHAMPAGNE

Heidsieck Monopole (France)
Krug (France)

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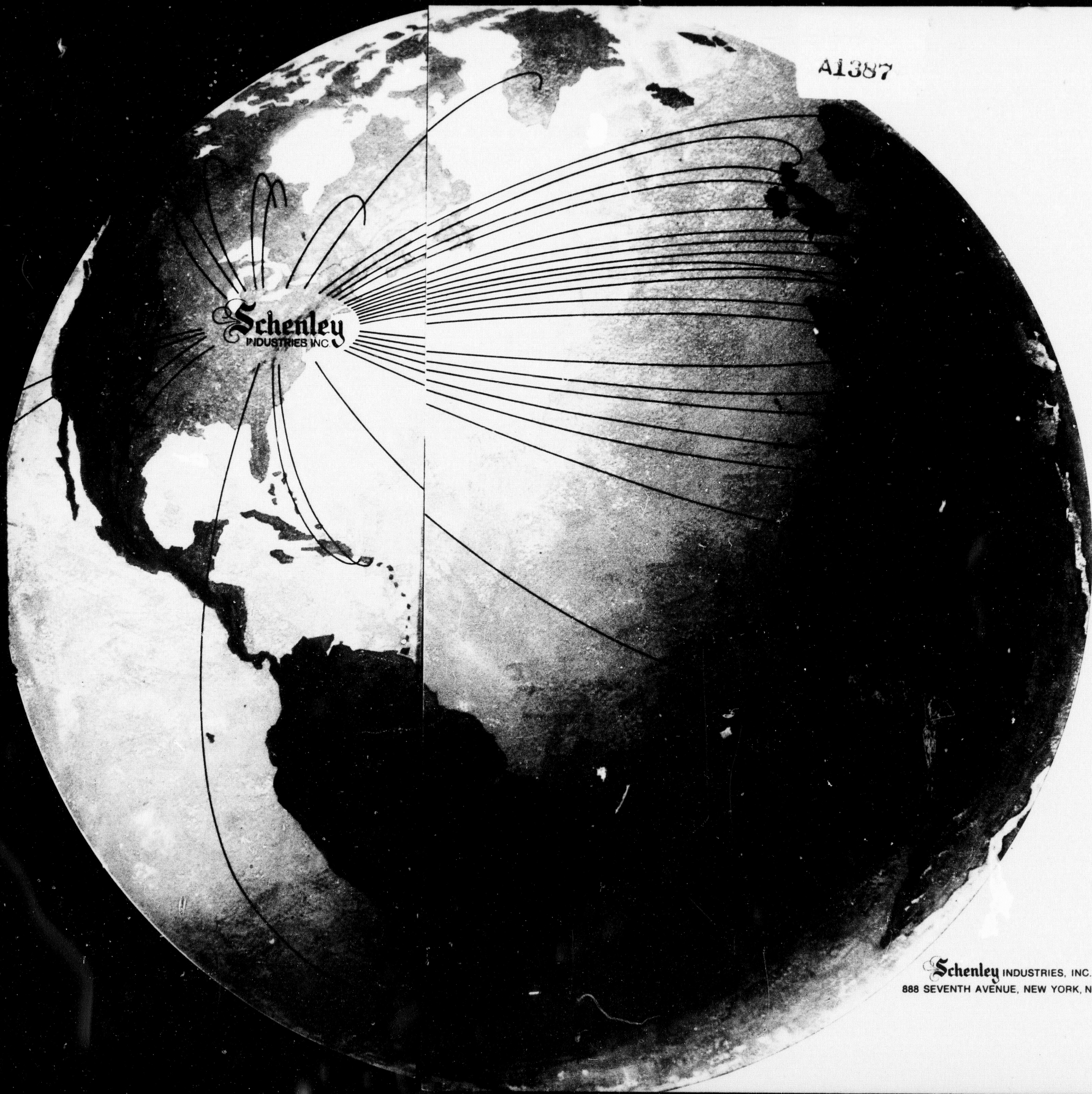
Blended Scotch Whisky
86 PROOF
EXTRA DRY
PLYMOUTH
ENGLISH GIN
BOTTLED IN BOND
I.W.HARPER
KENTUCKY STRAIGHT BOURBON WHISKEY
Champion Bourbon
Schenley VODKA
DuBOUCHETT
BLACKBERRY
Long John SCOTCH
Liqueur Strega
BICHOT
Vin d'Alsace
HVH
SYLVANER HUEL
CASCADE
TENNESSEE Sour Mash WHISKY
Old Fashion Rich Light
CASCADE DISTILLERS COMPANY
MADE IN TENNESSEE
GENUINE SOUR MASH
IMPORTED
SPECIAL
OTARD
COGNAC OTARD
SCHENLEY IMPORT COMPANY
J.W.DANT
Blackberry Brandy
FRENCH BRANDY
PRODUCT OF FRANCE
CUSENIER
de Ladoucette
DUBONNET
Dubonnet
Extra Seco
PUERTO RICO
XL
Special Blend by Schenly
IMPORTED
AKIVA
IMPORTED
CRUZAN RUM
Calvados
BUSNEL
CUENIER
PROD. OF FRANCE
MELROSE RARE 12
AURUM
Orange Liqueur
Arbalète
Comte Lafond
Marcadet
Chateauneuf du Pape
KENTUCKY BOURBON
ECHO SPRING
KENTUCKY BOURBON
IMPORTED
J.W. Dant's
SCOTCH WHISKY
J.W.
Samovar
GIN
J.W. Dant
Schenley
EXTRA DRY
GIN
IMPORTED
Canadian
MacNAUGHTON
CANADIAN WHISKY
Olé
Olé Tequila
Olé
Tequila
Tequila

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Schenley INDUSTRIES, INC.
888 SEVENTH AVENUE, NEW YORK, N.Y. 10019

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EX. 11

Schenley
INDUSTRIES INC

# ANNUAL REPORT 1972

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# 39th Annual Report

For the year ended December 31, 1972

**DIRECTORS**

ISIDORE A. BECKER, Chairman

DAVID A. CHERNOW

HOWARD S. FELDMAN

BERNARD GOLDBERG

ALBERT N. GREENFIELD

MILO B. HOPKINS

PAUL A. JOHNSTON

RUSSELL G. SMITH

MELVIN UNTERMAN

**GENERAL COUNSEL**

Fried, Frank,
Harris, Shriver & Jacobson
120 Broadway
New York, N.Y. 10015

**AUDITORS**

Haskins & Sells
Two Broadway,
New York, N.Y. 10004

**OFFICERS**

Chairman of the Board
ISIDORE A. BECKER

President
BERNARD GOLDBERG

Executive Vice President-
Sales and Marketing
HOWARD S. FELDMAN

Executive Vice President-
Finance and Administration
DAVID A. CHERNOW

Vice President-Cooperage
EDGAR R. DEUTSCHE

Vice President-Administration
HARRY ORENSTEIN

Vice President-Manufacturing
ADOLPH SLONE

Vice President and Treasurer
IRVING HORNSTEIN

Comptroller
HAROLD BAUM

Secretary;
General Resident Counsel
MILTON B. SEASONWEIN

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# Balance Sheet

| | December 31, 1972 | December 31, 1971 |
|---|---|---|
| **Current Assets:** | | |
| Cash, including certificates of deposit of $16,000,000 and $26,000,000 | $ 54,636,000 | $ 59,515,000 |
| Marketable securities, at cost, which approximates market | — | 15,999,000 |
| Receivables, less reserves | 150,590,000 | 124,027,000 |
| Inventories: | | |
| Whiskey, other spirits, and wine, at cost: | | |
| In bond | 203,409,000 | 207,553,000 |
| Tax paid | 33,814,000 | 34,188,000 |
| Other products, materials and supplies, at lower of cost or market | 21,393,000 | 19,536,000 |
| | 258,616,000 | 261,277,000 |
| **Total Current Assets** | 463,842,000 | 460,818,000 |
| **Investments:** | | |
| Long John International Limited, at equity | 21,459,000 | 20,210,000 |
| Rapid-American Corporation (Parent company) 6% debentures due 1988, at cost | 25,206,000 | 21,797,000 |
| Other investments, etc., at cost (Includes funds segregated for appraisal claims of former shareholders) | 19,992,000 | 36,290,000 |
| | 66,657,000 | 78,297,000 |
| **Plant and Property:** | | |
| Land, buildings, machinery, equipment, etc., at cost | 108,259,000 | 107,637,000 |
| Less accumulated depreciation | 61,867,000 | 61,490,000 |
| | 46,392,000 | 46,147,000 |
| **Prepaid and Deferred Charges** | 2,207,000 | 2,122,000 |
| **Goodwill, Brands and Trademarks** | 2,871,000 | 3,082,000 |
| | $581,969,000 | $590,466,000 |

See Notes to Financial Statements.

| | December 31, 1972 | December 31, 1971 |
|---|---|---|
| **Current Liabilities:** | | |
| Notes payable — short-term | $ 70,350,000 | $ 85,500,000 |
| Accounts payable | 20,268,000 | 16,324,000 |
| Accrued liabilities | 53,563,000 | 43,303,000 |
| Accrued Federal income taxes | 7,529,000 | — |
| **Total Current Liabilities** | 151,710,000 | 145,127,000 |
| **Long-Term Debt** | 71,500,000 | 71,500,000 |
| **Deferred Taxes** | 3,023,000 | 2,175,000 |
| **Other Liabilities** (Includes estimated liability for appraisal claims of former shareholders) | 26,019,000 | 42,494,000 |
| **Shareholders' Equity:** | | |
| Preference stock | 69,000 | 69,000 |
| Common stock | 9,966,000 | 9,966,000 |
| Capital surplus | 1,870,000 | 1,870,000 |
| Retained earnings | 317,815,000 | 317,268,000 |
| | 329,720,000 | 329,173,000 |
| Less treasury stock | 3,000 | 3,000 |
| **Total Shareholders' Equity** | 329,717,000 | 329,170,000 |
| | $581,969,000 | $590,466,000 |

See Notes to Financial Statements.

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Schenley Industries, Inc. and Consolidated Subsidiary Companies

# Statement of Income

| | Year Ended December 31, 1972 | Year Ended December 31, 1971 |
|---|---|---|
| **Revenues:** | | |
| Net sales | $693,143,000 | $637,658,000 |
| Other income — net | 4,180,000 | 4,262,000 |
| | 697,323,000 | 641,920,000 |
| **Costs and Expenses:** | | |
| Cost of goods sold | 555,215,000 | 511,502,000 |
| Selling, advertising and administrative expenses | 87,167,000 | 80,654,000 |
| Interest expense — net | 6,415,000 | 8,945,000 |
| Provision for Federal taxes on income | 21,880,000 | 18,530,000 |
| | 670,677,000 | 619,631,000 |
| Income from Continuing Operations | 26,646,000 | 22,289,000 |
| Income from The Buckingham Corporation | — | 2,723,000 |
| Income before Extraordinary Items | 26,646,000 | 25,012,000 |
| Extraordinary Items | — | 60,024,000 |
| **Net Income** | $ 26,646,000 | $ 85,036,000 |

See Notes to Financial Statements.

Schenley Industries, Inc. and Consolidated Subsidiary Companies

# Statements of Capital Surplus and Retained Earnings

| Capital Surplus | Year Ended December 31, 1972 | Year Ended December 31, 1971 |
|---|---|---|
| **Balance — Beginning of Period** | $ 1,870,000 | $ 62,405,000 |
| **Add:** | | |
| Excess Par Value upon Conversion of $1.40 Cumulative Convertible Preferred Stock into Common Stock | — | 4,000 |
| Capital Contribution by Parent Company | — | 73,000 |
| | 1,870,000 | 62,482,000 |
| **Deduct:** | | |
| Excess of Cost over Par Value of Treasury Stock (3,100 Preferred Shares and 1,638,076 Common Shares) retired in accordance with Merger Agreement and Plan of Reorganization | — | 33,976,000 |
| Cost of acquiring Preferred and Common Stock in accordance with Merger Agreement and Plan of Reorganization (see Retained Earnings below) | — | 26,071,000 |
| Costs incident to Merger | — | 565,000 |
| **Balance — End of Period** | $ 1,870,000 | $ 1,870,000 |

| Retained Earnings | | |
|---|---|---|
| **Balance — Beginning of Period** | $317,268,000 | $307,216,000 |
| **Net Income** | 26,646,000 | 85,036,000 |
| | 343,914,000 | 392,252,000 |
| **Deduct:** | | |
| Cash Dividends Declared: | | |
| Cumulative Preference Stock (annual rate of $.50 per share) | 99,000 | 99,000 |
| Common Stock—no Par Value | 26,000,000 | — |
| $1.40 Cumulative Convertible Preferred Stock ($.35 per share) (net of Parent Company Contribution of $177,000) | — | 705,000 |
| Common Stock-Par Value $.93⅓ ($.35 per share) | — | 2,792,000 |
| Cost of acquiring Preferred and Common Stock in accordance with Merger Agreement and Plan of Reorganization (see Capital Surplus above) | — | 71,388,000 |
| **Balance — End of Period** | $317,815,000 | $317,268,000 |

See Notes to Financial Statements.

Schenley Industries, Inc. and Consolidated Subsidiary Companies

# Notes to Financial Statements

DECEMBER 31, 1972

## SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation, Etc.** — All significant subsidiary companies have been consolidated in the accompanying financial statements except Long John International Limited, a 75%-owned subsidiary in Great Britain. The Company states its investment in Long John at the amount of its equity in underlying net assets, as reported in the consolidated financial statements of Long John and has included in Other income — net $2,000,000 (including non-recurring gains of $400,000) and $1,190,000 for the years ended December 31, 1972 and 1971 respectively, representing the Company's equity in the earnings of Long John.

**Foreign Operations** — The financial statements of Canadian subsidiaries have been consolidated herein on the basis of translating current accounts (other than inventories held for sale in the United States and other non-Canadian markets) at the rates prevailing at December 31, 1972 and 1971 respectively, and non-current accounts and inventories held for sale in the United States and other non-Canadian markets at historical U.S. dollar cost. The Company has calculated its equity in Long John based upon financial statements in pounds sterling translated similarly to those of the Canadian subsidiaries.

Undistributed earnings of foreign subsidiaries included in consolidated retained earnings at December 31, 1972 amounted to approximately $50,000,000. No provision has been made for taxes that would be payable upon distribution, because these earnings have been indefinitely reinvested.

**Inventories** — The inventories in bond, classified as current assets in accordance with the general practice of the industry, include whiskey and other spirits, which, in the normal course of business, will remain in storage to be aged for a period of several years. The in bond inventory is subject to payment of excise taxes upon removal from Government controlled premises.

**Plant and Property** —

Plant and property consisted of the following:

| | December 31, 1972 | December 31, 1971 |
|---|---|---|
| Land | $ 3,063,000 | $ 2,899,000 |
| Buildings and improvements | 51,767,000 | 52,280,000 |
| Machinery and equipment | 45,461,000 | 44,893,000 |
| Other | 7,968,000 | 7,565,000 |
| | $108,259,000 | $107,637,000 |

For financial statement reporting, depreciation is charged to production costs and operating expenses based, principally, upon the use of the straight-line method at specific rates. Leasehold improvements are amortized over the duration of the lease or life of the improvement, whichever is shorter.

## LONG-TERM DEBT

Long-term debt amounts to $71,500,000 in 6½% loans from insurance companies due March 1, 1979.

The loan agreement contains certain limitations with respect to additional borrowings and restricts payments for dividends and the acquisition of the Company's capital stock in excess of $9,413,000 at December 31, 1972.

## TAXES

Deferred taxes represent tax effects of items reported for tax purposes in periods different from those for book purposes. Such items include depreciation, amortization, deferred compensation and pension costs.

The Company's policy is to reduce the provision for Federal taxes on income by the amount of the estimated allowable investment credit. The investment credit amounts are not material.

## PREFERENCE AND COMMON STOCK

On December 27, 1971 the Company's Certificate of Incorporation was amended to change the authorized Capital Stock of the Company to:

| | |
|---|---|
| Cumulative Preference Stock — $.35 Par Value, Annual Dividend Rate $.50 Per Share | 197,594 Shares |
| Common Stock — No Par Value | 200 Shares |

At both December 31, 1972 and 1971, all of the authorized Cumulative Preference Stock and Common Stock were issued. Of the issued Cumulative Preference Stock 486 shares were held in Treasury.

On February 13, 1973, the Company redeemed the Cumulative Preference Stock at the redemption price of $10 per share.

## RETIREMENT PLANS

The Company has a trusteed noncontributory pension plan for most of its United States employees. The provision for pension cost for the two years ended December 31, 1972, charged to production costs and operating expenses, was approximately $2,400,000 in each year, which includes amortization over a period not exceeding 30 years of prior service costs. The Company's policy is to fund pension costs as required under Federal income tax regulations. Costs of benefits accrued under the other plans of subsidiaries which are provided and funded currently, are not significant.

## EXTRAORDINARY ITEMS

The extraordinary items, in calendar year 1971, comprise gain of $72,206,000 (net of applicable income taxes of $13,314,000) from sale of investment in The Buckingham Corporation and certain assets connected with the wine business and provision for loss of $12,182,000 (net of applicable income taxes of $9,842,000) on discontinuance and disposition of certain production facilities and products and approximate decline in market quotation value of a Canadian subsidiary's investment in securities.

## CONTINGENT LIABILITIES, ETC.

On May 10, 1971, the Company sold, in conformity with an antitrust consent decree, its 100% stock interest in The Buckingham Corporation to Northwest Industries, Inc., for a price of $120,000,000, consisting of $103,000,000 in cash and $17,000,000 principal amount of Northwest 9½% notes maturing March 1, 1979. The purchase price is subject to reduction after December 31, 1975 by reason of the Company's guarantee of a specified amount of "depletions" (i.e. case sales by wholesalers to retailers) of Cutty Sark Scotch Whisky and other Buckingham products during the five years ending December 31, 1975. In connection with the sale, the Company and Glen Alden (name changed to Rapid-American Corporation on November 3, 1972) guaranteed $23,000,000 principal amount of Northwest 9½% notes maturing March 1, 1986 which were simultaneously sold by Northwest to three insurance companies to finance part of the cash portion of the purchase price and $17,000,000 of Northwest notes acquired by the Company and subsequently sold at par plus accrued interest.

The $40,000,000 aggregate principal amount of Northwest 9½% notes guaranteed by the Company and Rapid-American are subordinated in right of payment to $80,000,000 of long-term notes of Northwest issued to certain banks in connection with Northwest's purchase of Buckingham and are secured by a pledge of all the stock of Buckingham, which pledge is subject to a prior pledge of such stock to secure Northwest notes issued to banks. As between the Company and Rapid-American, the Company is primarily liable on the guarantee which extends to March 2, 1979.

As of December 31, 1972, Northwest has met all of its obligations under the instruments described above and depletions of Cutty Sark Scotch Whisky have, on an annualized basis, exceeded the guaranteed specified amount, also described above.

On June 17, 1971, as a result of a merger of a wholly-owned subsidiary of Rapid-American with and into the Company, Rapid-American became the owner of all outstanding capital stock of the Company except its cumulative preference stock. In connection therewith, certain Schenley shareholders claimed appraisal rights. No final determination has as yet been made under Delaware law of the number of such shares which will qualify for appraisal or the amount which will be payable by the Company in respect thereof; however, it is estimated that on February 28, 1973 the maximum number of shares which may be entitled to appraisal was approximately 67,500 shares of common stock—par $.93⅓ and 178,500 shares of $1.40 cumulative convertible preferred stock.

The Company and certain of its subsidiaries are contingently liable under certain other contracts, letters of credit, and litigation now pending. The Company considers that the settlement of these contingencies will not involve amounts that are material in relation to its consolidated financial position and operations.

Schenley Industries, Inc. and Consolidated Subsidiary Companies

# Statement of Changes in Financial Position

| | Year Ended December 31, 1972 | Year Ended December 31, 1971 |
|---|---|---|
| **Sources** | | |
| **Operations** | | |
| Income before extraordinary items | $ 26,646,000 | $ 25,012,000 |
| Charges (credits) not involving working capital: | | |
| Depreciation | 3,192,000 | 3,318,000 |
| Deferred tax provision | 848,000 | 17,000 |
| Other liabilities | (209,000) | 763,000 |
| Undistributed share of Long John International Limited earnings | (1,376,000) | (1,190,000) |
| Other | 125,000 | 897,000 |
| | 29,226,000 | 28,817,000 |
| **Extraordinary Items** | — | 60,024,000 |
| Charges (credits) not involving working capital: | | |
| Investments, properties and businesses sold or discontinued | — | 21,956,000 |
| Deferred tax provision | — | (1,000,000) |
| Other | — | 3,500,000 |
| | — | 84,480,000 |
| | 29,226,000 | 113,297,000 |
| **Dispositions** | | |
| Cash dividends | 26,099,000 | 3,596,000 |
| Additions to plant and property—net | 3,437,000 | 4,065,000 |
| Additions to investments, etc. | 3,249,000 | 9,303,000 |
| Reduction in long-term debt | — | 8,500,000 |
| | 32,785,000 | 25,464,000 |
| Under Merger Agreement and Plan of Reorganization: | | |
| Cost of acquiring preferred and common stock | — | 97,459,000 |
| Costs incident to merger | — | 565,000 |
| | — | 98,024,000 |
| | 32,785,000 | 123,488,000 |
| **(Decrease) in Working Capital** | $ ( 3,559,000) | $ (10,191,000) |
| **Changes in Working Capital** | | |
| Cash and marketable securities | $ (20,878,000) | $ 5,348,000 |
| Receivables | 26,563,000 | (1,950,000) |
| Inventories | (2,661,000) | (41,598,000) |
| Notes payable—short-term | 15,150,000 | 27,250,000 |
| Accounts payable and accruals | (14,204,000) | (4,838,000) |
| Federal income taxes | (7,529,000) | 5,597,000 |
| **(Decrease) in Working Capital** | $ ( 3,559,000) | $ (10,191,000) |

See Notes to Financial Statements.

## Accountants' Opinion

To the Board of Directors of Schenley Industries, Inc.:

We have examined the financial statements of Schenley Industries, Inc. and consolidated subsidiary companies for the year ended December 31, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of wholly-owned subsidiaries in Canada, which are included in consolidation, nor the financial statements of Long John International Limited, a 75%-owned British subsidiary which is not consolidated. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries (whose contribution to net income was 18% of the consolidated amount), is based solely upon the reports of other accountants.

In our opinion, based on our examination and the reports of other accountants, the accompanying balance sheet and statements of income, capital surplus, retained earnings and changes in financial position present fairly the financial position of Schenley Industries, Inc. and consolidated subsidiary companies as of December 31, 1972 and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Two Broadway
New York, N. Y. 10004
February 28, 1973

COPIA
A1397

Industries, Inc. and Consolidated Subsidiary Companies

# Financial Review — Five Year Comparison

| | Year Ended | | | | |
|---|---|---|---|---|---|
| | December 31, 1972 | December 31, 1971 | December 31, 1970 | December 31, 1969 | August 31, 1968 |
| **Revenues:** | | | | | |
| Net sales | $693,143,000 | $637,658,000 | $615,494,000 | $585,856,000 | $493,953,000 |
| Other income — net | 4,180,000 | 4,262,000 | 1,982,000 | 2,341,000 | 1,268,000 |
| | 697,323,000 | 641,920,000 | 617,476,000 | 588,197,000 | 495,221,000 |
| **Costs and Expenses:** | | | | | |
| Cost of goods sold | 555,215,000 | 511,502,000 | 492,931,000 | 471,078,000 | 391,645,000 |
| Selling, advertising and administrative expenses | 87,167,000 | 80,654,000 | 76,631,000 | 71,762,000 | 70,876,000 |
| Interest expense — net | 6,415,000 | 8,945,000 | 13,120,000 | 14,922,000 | 12,866,000 |
| Provision for Federal taxes on income | 21,880,000 | 18,530,000 | 16,321,000 | 14,857,000 | 8,008,000 |
| | 670,677,000 | 619,631,000 | 599,003,000 | 572,619,000 | 483,395,000 |
| Income from Continuing Operations | 26,646,000 | 22,289,000 | 18,473,000 | 15,578,000 | 11,826,000 |
| Income from The Buckingham Corporation | — | 2,723,000 | 8,710,000 | 9,685,000 | 9,190,000 |
| Income before Extraordinary Items | 26,646,000 | 25,012,000 | 27,183,000 | 25,263,000 | 21,016,000 |
| Extraordinary Items | — | 60,024,000 | — | — | — |
| **Net Income** | $ 26,646,000 | $ 85,036,000 | $ 27,183,000 | $ 25,263,000 | $ 21,016,000 |

A139

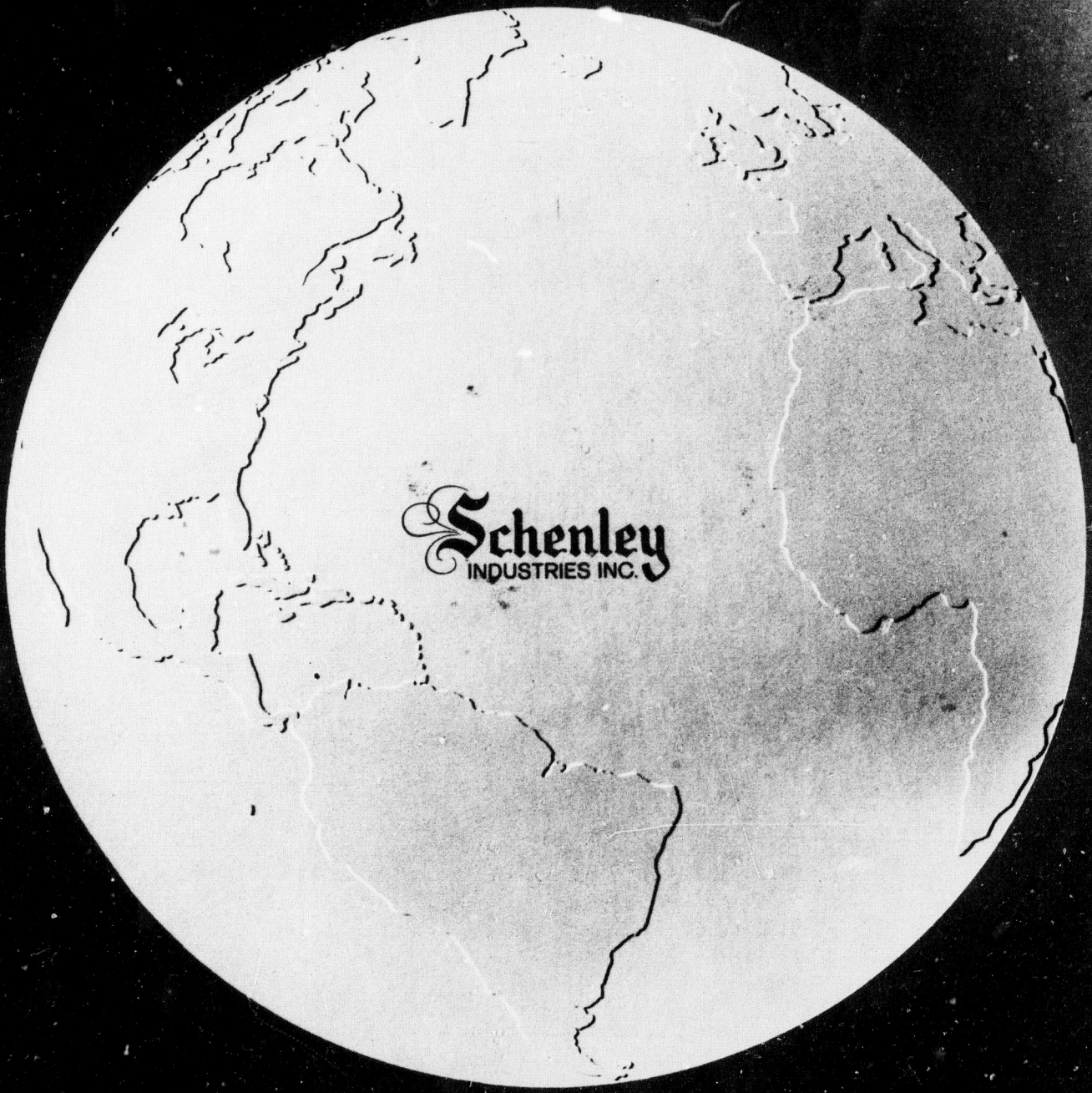
Brandy
BICHOT
BEAUJOLAIS
Scheiley
Barolo
Williams
OUZO
THREE FEATHERS

A1399

Schenley
Champion
Bourbon
CUSENIER
Samovar
STOCK
Blackberry
AKIVA
P&T
DUCHALET
Dawson

A1400

CHARTER
Grão Vasco
EXTRA DRY
PERLA
CAIVELEY
HARPER
HARPER
I.W.HARPER
White Label
ANCESTOR
12
CORONET
VSQ
Schenley
O.F.C.
CARIOCA
Schenley
STOCK
DRY
VERMOUTH
LILLET
Dickel
Mouches
IMPORTED
Olé
Tequila
ACKERMAN
DUBONNET


Schenley
INDUSTRIES INC.

11-15

[redacted]



SCHENLEY INDUSTRIES, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET - MAY 31, 1971

## ASSETS

| | | | ( IN THOUSANDS ) MAY 31, 1971 | MAY 31, 1970 |
|---|---|---|---|---|
| RRENT ASSETS: | | | | |
| CASH ON HAND AND IN BANKS | | | $ 50,774 | $ 46,621 |
| MARKETABLE SECURITIES | | | 124,530 | 17,020 |
| NOTES AND ACCOUNTS RECEIVABLE: | | | | |
| TRADE ACCOUNTS | | | 110,857 | 103,163 |
| LESS RESERVES FOR: | 5/31/71 | 5/31/70 | | |
| DOUBTFUL ACCOUNTS | $ 1,946 | $ 1,693 | | |
| ALLOWANCES | 4,701 | 3,447 | 6,647 | 5,140 |
| | | | 104,210 | 98,023 |
| NON-TRADE RECEIVABLES | | | 10,171 | 2,945 |
| | | | 114,381 | 100,968 |
| IN ENTORIES | | | 294,905 | 310,377 |
| TOTAL CURRENT ASSETS | | | 584,590 | 474,986 |
| NVESTMENTS AND OTHER ASSETS: | | | | |
| INVESTMENT IN BUCKINGHAM - AT EQUITY | | | - | 30,121 |
| INVESTMENT IN SENGER-EVANS - AT EQUITY | | | 19,853 | 19,221 |
| GLEN ALDEN CORP. 6% DEBENTURES DUE 1988 | | | 15,831 | 11,672 |
| OTHER INVESTMENTS | | | 1,961 | 1,940 |
| RECEIVABLES DUE AFTER ONE YEAR | | | 5,206 | 5,310 |
| | | | 42,851 | 68,264 |
| LANT AND PROPERTY: | | | | |
| LAND, BUILDING, MACHINERY AND EQUIPMENT - AT COST | | | 108,502 | 117,003 |
| LESS - ACCUMULATED DEPRECIATION | | | 62,415 | 68,735 |
| | | | 46,087 | 48,268 |
| REPAID AND DEFERRED CHARGES | | | 2,626 | 2,720 |
| OODWILL, BRANDS AND TRADE-MARKS | | | 2,195 | 2,374 |
| | | | $ 678,349 | $ 596,612 |

| | MAY 31, 1971 | MAY 31, 1970 |
|---|---|---|
| OTAL CURRENT ASSETS | $ 584,590 | $ 474,986 |
| URRENT ASSETS LESS CURRENT LIABILITIES | 415,568 | 308,368 |
| OOK VALUE OF COMMON (TOTAL ASSETS LESS TOTAL LIABILITIES & FAIR VALUE OF PREFERENCE AND PREFERRED STOCK) | 361,419 | 273,200 |

## LIABILITIES

| | ( IN THOUSANDS ) MAY 31, 1971 | MAY 31, |
|---|---|---|
| CURRENT LIABILITIES: | | |
| SHORT-TERM NOTES & COMMERCIAL PAPER | $ 89,600 | $ 110, |
| CURRENT MATURITY OF LONG-TERM DEBT | 10,500 | 2, |
| ACCOUNTS PAYABLE | 12,344 | 12, |
| ACCRUED LIABILITIES | 13,689 | 12, |
| ACCRUED FEDERAL EXCISE TAXES | 17,631 | 18, |
| RESERVE FOR FEDERAL & FOREIGN INC. TAXES | 16,825 | 5, |
| STATE & LOCAL TAXES PAYABLE | 8,433 | 5, |
| TOTAL CURRENT LIABILITIES | 169,022 | 166, |
| LONG-TERM DEBT: | | |
| 6.5%, due 3/1/79 | 71,500 | 71, |
| 3%, due 6/18/71 | - | 10, |
| | 71,500 | 82, |
| DEFERRED TAXES | 2,242 | 3, |
| OTHER LIABILITIES | 11,800 | 6, |
| SHAREHOLDERS' EQUITY: | | |
| PREFERENCE STOCK ($.35 PAR VALUE): | | |
| AUTHORIZED - 4,000,000 SHARES | | |
| ISSUED - 5/31/71 - 197,594 SHARES | 69 | |
| - 5/31/70 - 197,594 SHARES | | |
| PREFERRED STOCK ($1.00 PAR VALUE): | | |
| AUTHORIZED - 2,745,550 SHARES | | |
| ISSUED - 5/31/71 - 2,519,545 SHARES | 2,520 | |
| - 5/31/70 - 2,654,004 SHARES | | 2, |
| COMMON STOCK (.93 1/3 PAR VALUE): | | |
| AUTHORIZED - 20,000,000 SHARES | | |
| ISSUED - 5/31/71 - 9,621,412 SHARES | 8,980 | |
| - 5/31/70 - 9,500,493 SHARES | | 8, |
| CAPITAL SURPLUS | 62,444 | 62, |
| RETAINED EARNINGS | 384,570 | 299, |
| | 458,583 | 373, |
| LESS TREASURY STOCK AT COST: | | |
| PREFERENCE - 486 SHARES | 3 | |
| PREFERRED - 3,100 SHARES | 94 | |
| COMMON - 1,612,276 SHARES | 34,701 | 34, |
| | 423,785 | 339, |
| | $ 678,349 | $ 596, |

PER COMMON SHARE OUTST'G 5/31/71 (8,009,136 SH.)

| MAY 31, 1971 | MAY 31, 1970 |
|---|---|
| $ 72.99 | $ 59.30 |
| 51.88 | 38.50 |
| 45.12 | 34.11 |

Ex. 61

A1403
EX. 61

PLF. HIM EX# 84 DATE 10-16-73

THE PRUDENTIAL
INSURANCE COMPANY OF AMERICA
CORPORATE HOME OFFICE
PRUDENTIAL PLAZA NEWARK, N.J. 07101

June 7, 1971

Schenley Industries, Inc.
888 Seventh Avenue
New York, N. Y. 10019

Attention: Mr. David A. Chernow, Executive Vice President

Gentlemen:

Reference is made to the agreement between The Prudential Insurance Company of America (herein called "Prudential") and Schenley Industries, Inc. (herein called the "Company") dated March 29, 1949, as heretofore amended (herein called the "Agreement"), providing for the issuance by the Company of its 3.20% promissory notes due March 1, 1969, the maturity of which has been extended to March 1, 1979 and the interest rate of which has been increased to 6.5% (herein called the "Notes").

Subject to the written acceptance hereof by the Company, Prudential, as holder of $52,000,000 principal amount of Notes, hereby agrees with the Company as follows:

1. Prudential hereby consents to the merger of Glen Alden Subsidiary, Inc. with and into the Company pursuant to the Plan and Agreement of Reorganization dated May 21, 1971 and the Agreement of Merger dated May 21, 1971 between and among Glen Alden Corporation, Glen Alden Subsidiary, Inc. and the Company;

2. Prudential hereby consents to the payment by the Company to the stockholders of the Company (other than Glen Alden Corporation), pursuant to the aforesaid merger, of cash and 7 1/2% Sinking Fund Subordinated Debentures due 1985 of Glen Alden Corporation acquired by the Company from Glen Alden Corporation for cash at not exceeding the fair market value of such Debentures at the time of acquisition, provided that the aggregate amount of such cash and the cash cost to the Company of such Debentures shall not exceed $115,000,000, provided further that the aggregate amount of all such cash and the cost to the Company of such Debentures shall be deemed to be "Restricted Payments" for the purposes of subparagraph (d) of paragraph 6 of the Agreement, and provided further that the Company shall make no additional Restricted Payments except for cumulative dividends

EX. 17-B A1402

on the Company's presently outstanding Cumulative Preference Stock until any deficit in Consolidated Net Earnings Available for Restricted Payments shall have been restored; and

3. Effective upon the consummation of the aforesaid merger paragraph 6 of the Agreement shall be deemed amended by deleting subparagraph "(a)" and by substituting the following:

"(a) Permit the excess of its consolidated current assets over the sum of its consolidated current liabilities and consolidated long-term debt to be less than $170,000,000. The terms 'consolidated current assets' and 'consolidated current liabilities' for the purposes of this subparagraph (a) shall mean and shall be determined on a basis consistent with the consolidated balance sheet as of December 31, 1969 and 1970 set forth in the proxy statement for the annual meeting of stockholders of Schenley Industries, Inc. to be held on June 17, 1971, provided there shall be excluded from current assets any amounts due from any person or corporation controlling, or under common control with, the Company."

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between the Company and Prudential, amending the Agreement in the manner and to the extent hereinabove provided.

Very truly yours,

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By Roland F. Carlson
Vice President

The foregoing agreement is hereby accepted as of the date first above written.

SCHENLEY INDUSTRIES, INC.

By [illegible]
Executive Vice President

EX. 64-A A1405

ALLEN & COMPANY
INCORPORATED

30 BROAD STREET, NEW YORK, N.Y. 10004 • HANOVER 2-1600

June 3, 1971

Board of Directors of
Schenley Industries, Inc.
888 Seventh Avenue
New York, New York

Gentlemen:

Pursuant to our retention as adviser to the Board of Directors of Schenley Industries, Inc. in connection with the proposed reorganization between Schenley and Glen Alden Corporation, we reported orally to the Board on March 25, 1971 that in our opinion the terms of the proposed reorganization valued as of February 25, 1971 are fair and equitable to the holders of Schenley Common Stock and $1.40 Preferred Stock.

You have asked us for a short memorandum summarizing that oral report for incorporation by reference into the minutes of that Board meeting. This letter has been prepared to accommodate your request.

First we fully disclosed that Allen & Company Incorporated and an affiliated partnership has had several past relationships with Rapid-American Corporation and certain of its subsidiaries. We acted as one of three dealer managers for Glen Alden in connection with its Exchange Offer to holders of Schenley Common Stock in August 1968. We received fees aggregating $228,498 for our services as dealer manager and designated soliciting dealer and an additional $100,000 as compensation for our advice and assistance to Glen Alden in connection with the Exchange Offer. Since January 1, 1966, Allen & Company Incorporated and an affiliated partnership also received compensation aggregating approximately $1.2 million for

various other investment banking services performed for Rapid-American and its subsidiaries, which aforesaid figure includes net profits from the sale of securities on behalf of Rapid-American and certain of its subsidiaries.

We indicated that in rendering our opinion, we relied on information furnished by Glen Alden and Schenley and on published financial data, and did not make any independent factual investigation of the affairs of either Schenley or Glen Alden.

We suggested that certain changes be made in the proposed new debentures as follows:

1. That the term be shortened to 14 years.

2. That the sinking fund be improved so that payments of 3-1/2% of principal amount be required in years 1-5; 5-1/2% in years 6-10; 12% in years 11-13; and 19% at maturity.

3. That the subordination provisions be changed to place the issue pari passu in all respects with the presently outstanding 6% Debentures.

4. That holders be permitted to apply the new debentures at par in payment of the exercise price of any publicly traded warrants thereafter issued to purchase capital stock of Glen Alden.

We felt these improved terms would make the new debentures more valuable than the presently outstanding 6% Debentures and concluded therefore that the new debentures have a fair market value as of February 25 of approximately 80% of the stated principal amount of the debentures. In arriving at this conclusion, we considered the prevailing prices for the outstanding 6% Debentures as well as prices of comparable debentures of other issuers.

We indicated that this valuation for the new debentures would result in total consideration to the holders of Schenley common stock of approximately $29 per share and

consideration to the holders of the $1.40 preferred stock of approximately $26.10 per share. We further indicated that this consideration in our opinion is fair and equitable to holders of Schenley's common and preferred stock.

In arriving at our conclusion, we took into consideration the many traditional indicia of value, including present and historical market prices and factors relating to earnings, including price earnings ratios, as well as information relative to the company's future prospects, and data concerning the company's inventory and accounting practices, its product mix and brand strengths and weaknesses, as compared to other companies in the liquor industry. We also considered the factor of book value, including the ratio of book value to market price at which Schenley stock has historically sold, and the factor of the annual income to be received by each Schenley shareholder in the proposed reorganization as compared with the amounts presently received as dividends. Finally we took into account the consideration paid by Glen Alden in March 1968 for the block of Schenley stock owned by Schenley's then Chairman, Lewis S. Rosenstiel, and the consideration offered by Glen Alden in August 1968 in a tender offer to the other Schenley common stockholders. In our opinion, the terms of those transactions have little relevance to the fairness of the terms of the proposed merger.

We concluded that the preferred shares should be considered at their conversion value with no premium and assumed therefore that the value of the preferred stock would be determined by the value of the common stock.

To summarize, in our opinion, the value of the consideration offered to holders of Schenley's common stock as of February 25, 1971 is approximately $29 per share and the consideration offered to holders of Schenley's preferred stock is approximately $[illegible] per share. Our opinion is based on a comparison of the proposed new debentures with Glen Alden's currently outstanding 6% Debentures and with bonds of other issuers. After analyzing the many relevant

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factors including those enumerated above, we concluded that as of February 25, 1971 this value is fair and equitable to holders of Schenley's common and preferred shares.

Very truly yours,

ALLEN & COMPANY INCORPORATED

By _____
Stanley S. Shuman
Executive Vice President

A1408.1

EXHIBIT 66

[Copy for the reproduction of this exhibit furnished by Appellee]

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

February 17, 1970

## ACCOUNTANTS' OPINION

The Buckingham Corporation:

We have examined the balance sheet of The Buckingham Corporation as of December 31, 1969 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such statements present fairly the financial position of the Company at December 31, 1969, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also comprehended the supplemental schedules of changes in working capital, cost of sales, delivery and selling expenses, general and administrative expenses, and licenses and taxes for the year ended December 31, 1969 and a statement of income and retained earnings for the year then ended including the operations of BHM Industries, Inc., parent of the Company, for the period from May 15, 1969 to December 15, 1969. In our opinion, these supplemental schedules, when considered in relation to the basic financial statements, present fairly in all material respects the information shown therein.

Haskins & Sells

THE BUCKINGHAM CORPORATION
(Incorporated under the laws of the State of Delaware)

BALANCE SHEETS AS AT DECEMBER 31, 1969 AND 1968

| -- ASSETS -- | 1969 | 1968 |
|---|---|---|
| CURRENT ASSETS (exclusive of assets in Scotland and England): | | |
| Cash | $ 441,826 | $ 1,832,623 |
| Short-term investments - at cost, which approximates market | 6,000,401 | 31,086,623 |
| Accounts receivable: | | |
| Trade accounts (less allowance for doubtful accounts and claims - 1969, $75,083; 1968, $45,658) | 6,703,689 | 3,658,571 |
| Due from Schenley Industries, Inc. - parent company | 243 | |
| Miscellaneous | 18,650 | 12,333 |
| Inventories of cased goods - at lower of cost ("first-in, first-out") or market: | | |
| In warehouses and on piers: | | |
| Tax paid | 555,860 | 948,350 |
| In bond | 1,077,461 | 1,509,533 |
| In transit | 105,487 | 285,595 |
| Other current assets | 131,162 | 557,582 |
| Total current assets (exclusive of assets in Scotland and England) | 15,034,779 | 39,891,210 |
| ASSETS IN SCOTLAND AND ENGLAND: | | |
| Cash - U. S. dollar and sterling demand and time deposits | 127,266 | 164,195 |
| Inventories of bulk Scotch whiskies - at invoice cost (Note 2) | 6,472,273 | 6,472,273 |
| Investment in stock units of Highland Distilleries Co., Ltd. - at cost (market quotations - 1969, $1,616,409; 1968, $1,850,850) | 779,117 | 779,117 |
| Total assets in Scotland and England | 7,378,656 | 7,415,585 |
| PROPERTY AND EQUIPMENT - At cost: | | |
| Furniture and fixtures and trucks | 61,553 | 61,428 |
| Leasehold improvements | 129,202 | 18,898 |
| Total property and equipment | 190,755 | 80,326 |
| Less accumulated depreciation and amortization | 92,123 | 68,809 |
| Property and equipment - net | 98,632 | 11,517 |
| OTHER ASSETS: | | |
| Deferred distributorship agreement costs, less amortization of $153,959 | 1,385,629 | |
| Investment in preferred stock of parent company at cost (market quotation, $73,238) | 94,163 | |
| Total other assets | 1,479,792 | |
| TOTAL | $23,991,859 | $47,318,312 |

| LIABILITIES AND -- STOCKHOLDERS' EQUITY -- | 1969 | 1968 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable - current portion | $ [illegible] | |
| Accounts payable | [illegible] | $ [illegible] |
| Accrued liabilities: | | |
| Payroll taxes, including taxes withheld from payrolls | 3,534 | 3,680 |
| Other taxes | 296,351 | 34,990 |
| Other expenses | 926,245 | 1,770,254 |
| Taxes on income | 2,844,090 | 2,970,372 |
| Total current liabilities | [illegible] | [illegible] |
| LONG-TERM LIABILITY - Notes payable due in equal annual instalments on January 2, 1971 to 1973, with interest at 4% | 1,064,999 | |
| DEFERRED TAXES ON INCOME - Relating to write-off of deferred distributorship agreement costs for tax purposes | 768,020 | |
| Total liabilities | [illegible] | [illegible] |
| STOCKHOLDERS' EQUITY: | | |
| Common stock (Note 1): | | |
| Class A - Authorized 9,000,000 shares ($.50 par value), outstanding 5,800,000 shares | | 2,900,000 |
| Common stock without par value - Authorized and outstanding, 200 shares | 2,900,000 | |
| Additional paid-in capital (Note 1) | 9,978,022 | 9,977,922 |
| Retained earnings | 2,854,128 | 28,626,542 |
| Total stockholders' equity | 15,732,150 | 41,504,464 |
| TOTAL | $23,991,859 | $47,318,312 |

See Notes to Financial Statements.

A1408.3

THE [illegible] CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| NET SALES (Note 3) | $66,387,772 | $63,261,2[illegible] |
| COST OF SALES - Schedule 2 (Note 3) | 41,836,631 | 40,895,8[illegible] |
| GROSS PROFIT | 24,551,141 | 22,365,3[illegible] |
| DELIVERY AND SELLING EXPENSES - Schedule 3 | 3,228,476 | 3,464,[illegible] |
| GENERAL AND ADMINISTRATIVE EXPENSES - Schedule 4 | 935,505 | 755,19[illegible] |
| Total delivery, selling, general, and administrative expenses | 4,163,981 | 4,219,645 |
| PROFIT FROM OPERATIONS | 20,387,160 | 18,145,743 |
| OTHER INCOME: | | |
| Interest - net (includes tax exempt interest: 1969 - $517,354; 1968 - $819,940) | 749,421 | 1,320,28[illegible] |
| Dividends, including $2,790 from parent company (net of foreign income taxes withheld - 1969, $8,540; 1968 - $8,194) | 51,184 | 49,034 |
| INCOME BEFORE TAXES ON INCOME | 21,187,765 | 19,515,062 |
| PROVISION FOR TAXES ON INCOME: | | |
| Current | 10,735,000 | 10,505,000 |
| Deferred | 768,000 | |
| Total provision for taxes on income | 11,503,000 | 10,505,00[illegible] |
| NET INCOME FOR THE YEAR | 9,684,765 | 9,010,062 |
| RETAINED EARNINGS - Beginning of the year | 28,626,542 | 26,576,480 |
| | 38,311,307 | 35,586,542 |
| DIVIDENDS PAID: | | |
| Cash dividends: | | |
| On 5,800,000 shares of Class A common stock (per share: 1969 - $.30; 1968 - $1.20) | 1,740,000 | 6,960,000 |
| On 200 shares of common stock without par value (per share - $26,100) | 5,220,000 | |
| By distribution of short-term investments (at cost) and accrued interest thereon | 28,497,179 | |
| Total dividends paid | 3[illegible],457,179 | 6,960,00[illegible] |
| RETAINED EARNINGS - End of the year | $[illegible]2,854,128 | $28,626,54[illegible] |

See Notes to Financial Statements.

THE BUCKINGHAM CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1969

1. In March 1969 BHM Industries, Inc. (BHM) and its wholly-owned subsidiary, BHM Subsidiary, Inc. (Subsidiary) were organized. Under an agreement included in a plan of reorganization, which was adopted by the Company's stockholders on May 15, 1969, the Subsidiary merged with and into the Company, the latter being the surviving corporation of the merger. The certificate of incorporation of the Company was amended to reduce its authorized capitalization to 200 shares of Common Stock without par value. On consummation of the merger, the outstanding 10 shares of no par common stock of Subsidiary, which had been issued to BHM in consideration for $100, was cancelled and such amount credited to the Company's additional paid-in capital. The Company's stockholders received Common Stock of BHM (par value $.50 per share) on a share for share basis in exchange for their shares, and the Company became a wholly-owned subsidiary of BHM.

   On December 15, 1969, BHM became a wholly-owned subsidiary of Schenley Industries, Inc. (Schenley) under a Preferred Stock Agreement of Merger, which was approved by the BHM stockholders on that date, and BHM was merged with and into Schenley.

2. The quantity of whiskies to be blended, bottled, and exported to the Company within one year cannot now be ascertained; therefore it is not possible to state the amount of the inventories which will be realized in such period.

3. During the latter part of 1962 the practice of selling cased goods on an in-bond basis was inaugurated. However, in order to facilitate comparison between periods, the sales on a duty-paid basis for 1969 and 1968 would have been $123,111,039 and $116,008,963, respectively, with accompanying increases in cost of sales to $98,559,898 and $93,643,575, resulting in no change in net income.

4. Under its trusteed Profit-Sharing Retirement Plan for employees the Company is required to make annual contributions to a Profit-Sharing Trust Fund. The contribution for the year 1969 amounted to $64,947. There is no unfunded past service cost under the Plan.

5. In April 1966, the United States Department of Justice filed a civil anti-trust suit against Schenley and The Buckingham Corporation (Buckingham) charging that Schenley's acquisition of shares of outstanding stock of Buckingham on August 31, 1964 was in violation of Section 7 of the Clayton Act. The

(Continued)

[illegible] part, [illegible] an order requiring Schenley to [illegible] itself of its holdings of Buckingham stock. No [illegible], other than plaintiff's costs, are sought by the plaintiff.

In October and December 1968, private actions were commenced in certain United States District Courts against Buckingham, Schenley and others seeking damages in the maximum aggregate of thirty-seven million dollars against all defendants and injunctive relief for alleged violations of anti-trust laws and alleged breach of exclusive distributorship agreements. In the opinion of Buckingham's counsel, based on preliminary analysis of the facts and discussions with trial counsel, Buckingham has substantial defenses to the allegations of the complaints, and any monetary recovery which may be made against Buckingham in these actions will not be material in amount.

On May 9, 1969 a stockholder instituted an action on behalf of himself and all other stockholders of Buckingham similarly situated in the Supreme Court of the State of New York against Buckingham, its officers and directors, Schenley and Glen Alden Corporation to enjoin the defendants from permitting a vote upon the adoption of the reorganization plan under which Buckingham became a wholly-owned subsidiary of BHM and from carrying such plan into effect. On May 14, 1969 a motion for preliminary injunction in such action was denied by the Court, and on May 29, 1969 Buckingham filed its answer in such action denying the material allegations of the complaint and alleging two affirmative defenses.

On June 30, 1969 the plaintiff moved in the above action for summary judgment declaring the reorganization plan illegal and void and directing BHM to return to the stockholders of Buckingham the stock owned by them on May 15, 1969 and for an order enjoining Schenley from acquiring any additional shares of BHM. Such motions were denied by the Court on August 4, 1969. Thereafter plaintiff moved for reargument of his motions and requested an injunction against the merger of Schenley and BHM pending the Court's decision. The defendants then cross-moved for summary judgment dismissing the complaints. Defendants' cross-motions for summary judgment were granted on September 9, 1969, but the time to file a notice of appeal has not yet expired. Plaintiff has, however, filed notice of appeal from the denial of his motions.

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(Concluded) -

THE BUCKINGHAM CORPORATION

CHANGES IN WORKING CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| ADDITIONS: | | |
| From operations: | | |
| Net income for the year | $ 9,684,765 | $9,010,06[illegible] |
| Depreciation and amortization | 179,918 | 3,63[illegible] |
| Decreases in assets in Scotland and England - cash | 36,930 | 48,57[illegible] |
| Increase in long-term liability | 1,064,999 | |
| Increase in deferred taxes on income | 768,000 | |
| Other | 100 | |
| Total additions | 11,734,712 | 9,062,27[illegible] |
| DEDUCTIONS: | | |
| Dividends paid: | | |
| In cash | 6,960,000 | 6,960,00[illegible] |
| By distribution of short-term investments and accrued interest thereon | 28,497,179 | |
| Additions to property and equipment | 113,075 | |
| Cost of distributorship agreement | 1,539,588 | 4,32[illegible] |
| Purchase of preferred stock of parent company | 94,163 | |
| Total deductions | 37,204,005 | 6,964,32[illegible] |
| (DECREASE) INCREASE IN WORKING CAPITAL | $(25,469,293) | $2,097,9[illegible] |

A1408.7

SCHEDULE

THE BUCKINGHAM CORPORATION

COST OF SALES
FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| INVENTORY OF CASED GOODS AT BEGINNING OF YEAR: | | |
| Whiskey | $ 1,987,727 | $ 948,47[illegible] |
| Federal excise taxes and duty | 599,760 | 464,1[illegible] |
| Freight and consular fees | 155,991 | 77,9[illegible] |
| | 2,743,478 | 1,490,5[illegible] |
| PURCHASES: | | |
| Whiskey | 31,112,999 | 31,239,1[illegible] |
| Federal excise taxes and duty | 9,930,528 | 10,941,9[illegible] |
| Freight, consular fees, and customs bond premiums | 462,388 | 616,1[illegible] |
| Ocean marine and war risk insurance | 58,706 | 68,4[illegible] |
| | 41,564,621 | 42,865,7[illegible] |
| Less - Purchase discounts | 732,660 | 716,9[illegible] |
| | 40,831,961 | 42,148,8[illegible] |
| | 43,575,439 | 43,639,3[illegible] |
| LESS INVENTORY OF CASED GOODS AT END OF YEAR: | | |
| Whiskey | 1,286,901 | 1,987,7[illegible] |
| Federal excise taxes and duty | 344,165 | 599,7[illegible] |
| Freight and consular fees | 107,742 | 155,9[illegible] |
| | 1,738,808 | 2,743,4[illegible] |
| TOTAL | $41,836,631 | $40,895,8[illegible] |

THE [illegible]

DELIVERY AND SELLING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| **DELIVERY EXPENSES** | | |
| Salaries and wages | $ 58,406 | $ 58,27 |
| Delivery equipment - rental and expenses | 11,484 | 16,3 |
| Rent and electricity | 8,244 | 7,1 |
| Insurance on warehouse stocks | 24,802 | 15,92 |
| Insurance - compensation, fidelity, and accident | 10,899 | 7,88 |
| Telephone and telegraph | 2,815 | 2,58 |
| Stationery and supplies | 1,084 | 62 |
| Depreciation - delivery equipment | | 79 |
| Storage charges | 143,574 | 145,64 |
| Teamsters' Union assessments | 7,773 | 7,80 |
| Miscellaneous | 8,804 | (1,97 |
| Total delivery expenses | 277,885 | 261,07 |
| **SELLING EXPENSES** | | |
| Salaries - account executives | 70,152 | 41,20 |
| Advertising (including samples) | 486,868 | 800,19 |
| Account executives' expenses | 31,660 | 46,39 |
| Travel and entertaining | 54,715 | 21,80 |
| Rent and electricity | 20,932 | 19,935 |
| Telephone and telegraph | 16,891 | 15,520 |
| Deferred compensation | 25,004 | 0,000 |
| Depreciation - sales office furniture and fixtures | 887 | 950 |
| Account executives' welfare fund assessment | 6,819 | 4,910 |
| Account executives' annual affairs | 4,71 | 3,820 |
| Distributors' expenses | 54,525 | 47,726 |
| Promotion and distribution: | | |
| Special representative | 1,383,867 | 1,537,07 |
| Monopoly state representatives | 608,810 | 595,289 |
| Amortization of distribution agreement costs | 153,959 | |
| Miscellaneous | 30,786 | 18,55 |
| Total selling expenses | 2,950,591 | 3,203,37 |
| TOTAL DELIVERY AND SELLING EXPENSES | $3,228,476 | $3,46,4 |

# THE BUCKINGHAM CORPORATION

## GENERAL AND ADMINISTRATIVE EXPENSES
## FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| Officers' salaries | $185,773 | $127,709 |
| Office salaries | 185,901 | 146,313 |
| Deferred compensation | 14,200 | 14,200 |
| Profit-sharing retirement plan contribution | 64,947 | 46,577 |
| Directors' fees and expenses | 22,955 | 18,419 |
| Rent and electricity | 32,291 | 28,[illegible] |
| Legal and auditing | 113,000 | 142,[illegible] |
| Transfer agents' and registrars' fees and expenses | 20,057 | 31,69[illegible] |
| Telephone and telegraph | 8,446 | 7,7[illegible] |
| Stationery, printing, and office supplies | 32,331 | 32,897 |
| Membership dues, subscriptions, and donations | 60,544 | 58,449 |
| Insurance | 14,551 | 11,720 |
| Depreciation - office furniture and fixtures | 1,763 | 1,889 |
| Amortization - leasehold improvements | 23,309 | |
| Stockholders' reports | 40,090 | 14,561 |
| Medical insurance | 9,707 | 3,912 |
| Miscellaneous | 34,377 | 31,2[illegible] |
| | 894,242 | 718,18[illegible] |
| Licenses and taxes (Schedule 5) | 41,263 | 37,011 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | $935,505 | $755,19[illegible] |

# THE BUCKINGHAM CORPORATION

## LICENSES AND TAXES
## FOR THE YEARS ENDED DECEMBER 31, 1969 AND 1968

| | 1969 | 1968 |
|---|---|---|
| LICENSES: | | |
| New York and New Jersey wholesale liquor | $ 8,810 | $ 7,992 |
| Federal wholesale and retail liquor | 564 | 500 |
| Motor vehicle | 137 | 137 |
| | 9,511 | 8,62[illegible] |
| TAXES: | | |
| Delaware franchise and filing fee | 9,730 | 10,375 |
| North Carolina foreign corporation income | 4,703 | 2,687 |
| North Carolina intangible personal property | 187 | 168 |
| New Jersey personal property tax | 22 | |
| New York City occupancy | 2,646 | 2,380 |
| New York use tax | | 843 |
| Unemployment insurance | 1,376 | 1,374 |
| Federal insurance contributions | 12,980 | 10,599 |
| Disability benefits | 224 | (56 |
| New York State beverage | | 84 |
| Alabama State sales tax refund | (116) | (71 |
| | 31,752 | 28,3[illegible] |
| TOTAL LICENSES AND TAXES (Schedule 4) | $41,263 | $37,01[illegible] |

A1408.12

THE BUCKINGHAM CORPORATION

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FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 1970
AND
ACCOUNTANTS' OPINION

**********

HASKINS & SELLS

A1408.13

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

## ACCOUNTANTS' OPINION

The Buckingham Corporation:

We have examined the balance sheet of The Buckingham Corporation, a wholly-owned subsidiary of Schenley Industries, Inc., as of December 31, 1970 and the related statements of income and retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such statements present fairly the financial position of the Company at December 31, 1970, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

February 19, 1971

A1408.14

THE BUCKINGHAM CORPORATION
(Incorporated under the laws of the State of Delaware)

BALANCE SHEETS AS OF DECEMBER 31, 1970 AND 1969

| -- ASSETS -- | 1970 | 1969 |
|---|---|---|
| CURRENT ASSETS (exclusive of assets in Scotland and England): | | |
| Cash | $ 2,291,684 | $ 441,826 |
| Short-term investments - at cost, which approximates market | 3,900,000 | 6,000,401 |
| Accounts receivable: | | |
| Trade accounts (less allowance for doubtful accounts and claims - 1970, $67,286; 1969 $75,083) | 5,410,755 | 6,703,689 |
| Due from Schenley Industries, Inc. - parent company | | 243 |
| Other | 110,386 | 18,650 |
| Inventories of cased goods - at lower of cost ("first-in, first-out") or market: | | |
| In warehouses and on piers: | | |
| Tax paid | 616,436 | 555,860 |
| In bond | 758,049 | 1,077,461 |
| In transit | 282,583 | 105,487 |
| Other current assets | 74,975 | 131,162 |
| Total current assets (exclusive of assets in Scotland and England) | 13,444,868 | 15,034,779 |
| ASSETS IN SCOTLAND AND ENGLAND: | | |
| Cash - U.S. dollar and sterling demand and time deposits | 185,546 | 127,266 |
| Inventories of bulk Scotch whiskies - at invoice cost (Note 3) | 6,472,273 | 6,472,273 |
| Investment in stock units of Highland Distilleries Co., Ltd. - at cost (market quotations - 1970 - $1,427,622; 1969, $1,616,409) | 779,117 | 779,117 |
| Total assets in Scotland and England | 7,436,936 | 7,378,656 |
| PROPERTY - At cost (Note 2): | | |
| Furniture and fixtures | 59,523 | 61,553 |
| Leasehold improvements | 151,422 | 129,202 |
| Total property | 210,945 | 190,755 |
| Less accumulated depreciation and amortization | 118,045 | 92,123 |
| Property - net | 92,900 | 98,632 |
| OTHER ASSETS: | | |
| Deferred distributorship agreement costs, less amortization - 1970, $307,917; 1969, $153,959. | 1,077,712 | 1,385,629 |
| Investment in preferred stock of parent company at cost (market quotation - 1969 $73,238) | | 94,163 |
| Total other assets | 1,077,712 | 1,479,792 |
| TOTAL | $22,052,416 | $23,991,859 |

| -- LIABILITIES AND STOCKHOLDER'S EQUITY -- | 1970 | 1969 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable - current portion | $ 354,999 | $ 354,999 |
| Accounts payable | 2,083,315 | 2,001,491 |
| Accrued liabilities: | | |
| Payroll taxes, including taxes withheld from payrolls | 3,890 | 3,534 |
| Other taxes | 235,418 | 296,351 |
| Other expenses | 668,409 | 926,245 |
| Taxes on income | 1,041,231 | 2,844,090 |
| Total current liabilities | 4,387,262 | 6,426,710 |
| LONG-TERM LIABILITY - Notes payable due in equal annual instalments on the first business day of January 1972 and 1973, with interest at 4% | 709,999 | 1,064,999 |
| DEFERRED TAXES ON INCOME - Relating to write-off of deferred distributorship agreement costs for tax purposes | 607,000 | 768,000 |
| Total liabilities | 5,704,261 | 8,259,709 |
| STOCKHOLDER'S EQUITY: | | |
| Common stock without par value - authorized and outstanding, 200 shares | 2,900,000 | 2,900,000 |
| Additional paid-in capital | 9,978,022 | 9,978,022 |
| Retained earnings | 3,470,133 | 2,854,128 |
| Total stockholder's equity | 16,348,155 | 15,732,150 |
| TOTAL | $22,052,416 | $23,991,859 |

See Notes to Financial Statements.

THE BUCKINGHAM CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

| | 1970 | 1969 |
|---|---|---|
| NET SALES (Note 4) | $60,039,978 | $66,387,772 |
| COST OF GOODS SOLD (Note 4) | 38,389,714 | 41,836,631 |
| GROSS PROFIT | 21,650,264 | 24,551,141 |
| EXPENSES: | | |
| Delivery and selling | 3,483,425 | 3,228,476 |
| General and administrative | 1,074,587 | 935,505 |
| Total | 4,558,012 | 4,163,981 |
| PROFIT FROM OPERATIONS | 17,092,252 | 20,387,160 |
| OTHER INCOME: | | |
| Interest - net (includes tax exempt interest - 1970, $66,842; 1969, $517,354) | 162,078 | 749,421 |
| Dividends (includes dividends from parent company - 1970, $4,340; 1969, $2,790) net of foreign income taxes withheld - 1970, $8,558; 1969, $8,540 | 52,838 | 51,184 |
| INCOME BEFORE TAXES ON INCOME | 17,307,168 | 21,187,765 |
| PROVISION FOR TAXES ON INCOME: | | |
| Current | 8,758,000 | 10,735,000 |
| Deferred | (161,000) | 768,000 |
| Total | 8,597,000 | 11,503,000 |
| NET INCOME FOR THE YEAR | 8,710,168 | 9,684,765 |
| RETAINED EARNINGS - Beginning of the year | 2,854,128 | 28,626,542 |
| Total | 11,564,296 | 38,311,307 |
| DIVIDENDS PAID: | | |
| Cash dividends: | | |
| On 5,800,000 shares of Class A common stock (per share: 1969 - $.30) | | 1,740,000 |
| On 200 shares of common stock without par value (per share: 1970 - $40,000; 1969 - $26,100) | 8,000,000 | 5,220,000 |
| By distribution of short-term investments (at cost) and accrued interest thereon | | 28,497,179 |
| By distribution of investment in preferred stock of parent company - at cost | 94,163 | |
| Total | 8,094,163 | 35,457,179 |
| RETAINED EARNINGS - End of the year | $ 3,470,133 | $ 2,854,128 |

See Notes to Financial Statements.

# THE BUCKINGHAM CORPORATION

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS
## FOR THE YEARS ENDED DECEMBER 31, 1970 AND 1969

| | 1970 | 1969 |
|---|---|---|
| **SOURCES OF FUNDS:** | | |
| Current operations: | | |
| Net income for the year | $8,710,168 | $ 9,684,765 |
| Amortization deferred distributorship agreement costs | 307,917 | 153,959 |
| Depreciation and amortization - property | 30,874 | 25,959 |
| Deferred taxes on income | (161,000) | 768,000 |
| Decreases in assets in Scotland and England | | 36,930 |
| Increase in long-term liability | | 1,064,999 |
| Disposition of investment in preferred stock of parent company | 94,163 | |
| Other | | 100 |
| Total sources of funds | 8,982,122 | 11,734,712 |
| **APPLICATIONS OF FUNDS:** | | |
| Cost of distributorship agreement | | 1,539,588 |
| Increase in property | 25,142 | 113,075 |
| Increase in assets in Scotland and England | 58,280 | |
| Investment in preferred stock of parent company | | 94,163 |
| Decrease in long-term liability | 354,999 | |
| Dividends paid: | | |
| In cash | 8,000,000 | 6,960,000 |
| By distribution of short-term investments and accrued interest thereon | | 28,497,179 |
| By distribution of investment in preferred stock of parent company | 94,163 | |
| Total applications of funds | 8,532,584 | 37,204,005 |
| **INCREASE (DECREASE) IN WORKING CAPITAL** | $ 449,538 | $(25,469,293) |

See Notes to Financial Statements.

# THE BUCKINGHAM CORPORATION

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED DECEMBER 31, 1970

1. During 1970 Schenley Industries, Inc. and Northwest Industries, Inc. signed a memorandum of understanding setting forth the major terms of an agreement for the purchase by Northwest from Schenley of all the outstanding capital stock of Buckingham. The terms of the agreement have not been consummated as of February 19, 1971.

2. Depreciation of furniture and fixtures is based on the straight-line method and amortization of leasehold improvements is charged to income over the term of the lease for both book and tax purposes. Depreciation and amortization expense for 1970 was $30,874 and for 1969 was $25,959.

3. The quantity of whiskies to be blended, bottled, and exported to the Company within one year cannot now be ascertained; therefore it is not possible to state the amount of the inventories which will be realized in such period.

4. During the latter part of 1962 the practice of selling cased goods on an in-bond basis was inaugurated. However, in order to facilitate comparison between periods, the sales on a duty-paid basis for 1970 and 1969 would have been $108,431,242 and $123,111,039, respectively, with accompanying increases in cost of goods sold to $86,780,978 and $98,559,898, resulting in no change in net income.

5. Under its trusteed Profit-Sharing Retirement Plan for employees the Company is required to make annual contributions to a Profit-Sharing Trust Fund. The contribution for the year 1970 amounted to $88,089. There is no unfunded past service cost under the Plan.

6. In April 1966, the United States Department of Justice filed a civil anti-trust suit against Schenley Industries, Inc. and The Buckingham Corporation charging that Schenley's acquisition of shares of outstanding stock of Buckingham on August 31, 1964 was in violation of Section 7 of the Clayton Act. The suit, in part, seeks an order requiring Schenley to divest itself of its holdings of Buckingham stock.

(Continued) 

On May 5, 1969 a stockholder instituted an action on behalf of himself and all other stockholders of Buckingham similarly situated in the Supreme Court of the State of New York against Buckingham, its officers and directors, Schenley and Glen Alden Corporation to enjoin the defendants from permitting a vote upon the adoption of the reorganization plan uder which Buckingham became a wholly-owned subsidiary of BHM Industries, Inc. and from carrying such plan into effect. On May 14, 1969 a motion for a preliminary injunction in such action was denied by the Court, and on May 29, 1969 Buckingham filed its answer in such action denying the material allegations of the complaint and alleging two affirmative defenses.

On June 30, 1969 the plaintiff moved in the above action for summary judgment declaring the reorganization plan illegal and void and directing BHM to return to the stockholders of Buckingham the stock owned by them on May 15, 1969 and for an order enjoining Schenley from acquiring any additional shares of BHM. Such motions were denied by the Court on August 4, 1969. Thereafter plaintiff moved for reargument of his motions and requested an injunction against the merger of Schenley and BHM pending the Court's decision. The defendants then cross-moved for summary judgment dismissing the complaints. Defendants' cross-motions for summary judgment were granted on September 9, 1969, but the time to file a notice of appeal has not yet expired. Plaintiff has, however, filed a notice of appeal from the denial of his motions.

Buckingham is the defendant in an action instituted in Puerto Rico by its former local distributor under the Puerto Rico Dealers' Contract Law. This action is stayed pending determination of the constitutionality of the law as it affects contracts entered into prior to its passage. In the October 1970 Term of the United States Supreme Court, it reversed a judgment of the United States Court of Appeals entered in March 1970 holding the law unconstitutional as applied to contracts made before its enactment and remanded it to be held and undetermined until the Puerto Rican Supreme Court authoritatively ruled on the local law question.

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A1408.19

THE BUCKINGHAM CORPORATION

FINANCIAL STATEMENTS FOR THE
FOUR MONTHS ENDED APRIL 30, 1971
AND
ACCOUNTANTS' OPINION

**********

HASKINS & SELLS

A1408.20

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

## ACCOUNTANTS' OPINION

The Buckingham Corporation:

We have examined the balance sheet of The Buckingham Corporation as of April 30, 1971 and the related statement of income and retained earnings for the four months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In order to make the April 30, 1971 balance sheet consistent with the December 31, 1970 balance sheet with respect to accruals for advertising expense it is necessary to reduce the advertising accrual at April 30, 1971 by $1,001,000 less related income tax of $510,000. This entry has been recorded in the accompanying financial statements but has not been made on the books.

In our opinion, such statements present fairly the financial position of the Company at April 30, 1971, and the results of its operations for the four months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

July 30, 1971

K1408.21

THE BUCKINGHAM CORPORATION
(Incorporated under the laws of the State of Delaware)

BALANCE SHEET AS OF APRIL 30, 1971

## ASSETS

| | |
|---|---|
| ETS (exclusive of assets in Scotland and England): | |
| ..... | $ 3,574,548 |
| m investments - at cost, which approximates market. | 2,500,000 |
| receivable: | |
| ccounts (less allowance for doubtful accounts and s, $64,714)..... | 2,803,658 |
| ..... | 874,608 |
| es of cased goods - at lower of cost ("first-in, ut") or market: | |
| houses and on piers: | |
| aid..... | 787,504 |
| nd..... | 1,037,877 |
| sit..... | 459,984 |
| rent assets..... | 84,852 |
| Total current assets (exclusive of assets in Scotland and England)..... | 11,733,031 |
| COTLAND AND ENGLAND: | |
| S. dollar and sterling demand and time deposits.... | 187,613 |
| es of bulk Scotch whiskies - at invoice cost 3)..... | 6,472,273 |
| t in stock units of Highland Distilleries Co., at cost (market valuation - $1,362,948)..... | 779,117 |
| Total assets in Scotland and England..... | 7,439,003 |
| At cost (Note 2): | |
| and fixtures and sales equipment..... | 69,828 |
| improvements..... | 187,258 |
| Total property..... | 257,086 |
| mulated depreciation and amortization..... | 132,977 |
| Property - net..... | 124,109 |
| S: | |
| distributorship agreement costs, less accumulated ation, $393,289..... | 992,340 |
| TOTAL..... | $20,288,483 |

## LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|---|---|
| CURRENT LIABILITIES: | |
| Notes payable - current portion..... | $ 355,000 |
| Accounts payable..... | 1,041,857 |
| Accrued liabilities: | |
| Payroll taxes, including taxes withheld from payrolls.... | 2,174 |
| Other taxes..... | 189,741 |
| Other expenses..... | 71[illegible],149 |
| Taxes on income..... | 1,625,827 |
| Total current liabilities..... | 4,022,728 |
| LONG-TERM LIABILITY - Notes payable due January 2, 1973, with interest at 4%..... | 355,000 |
| DEFERRED TAXES ON INCOME (Note 5)..... | 863,000 |
| Total liabilities..... | 5,2[illegible],728 |
| STOCKHOLDER'S EQUITY: | |
| Common stock without par value - authorized and outstanding, 200 shares..... | 2,900,000 |
| Additional paid-in capital..... | 9,378,022 |
| Retained earnings..... | 2,[illegible]9,733 |
| Total stockholder's equity..... | 15,2[illegible]7,755 |
| TOTAL..... | $20,288,483 |

See Notes to Financial Statements.

# THE BUCKINGHAM CORPORATION

## STATEMENT OF INCOME AND RETAINED EARNINGS
## FOR THE FOUR MONTHS ENDED APRIL 30, 1971

| | | |
|---|---|---|
| NET SALES | | $19,675,404 |
| COST OF GOODS SOLD | | 11,895,254 |
| GROSS PROFIT | | 7,780,150 |
| EXPENSES: | | |
| Delivery and selling | $ 956,774 | |
| General and administrative | 315,002 | 1,271,776 |
| PROFIT FROM OPERATIONS | | 6,508,374 |
| OTHER INCOME: | | |
| Interest - net | | 51,226 |
| INCOME BEFORE TAXES ON INCOME | | 6,559,600 |
| PROVISION FOR TAXES ON INCOME: | | |
| Current | 3,295,000 | |
| Deferred | 55,000 | 3,350,000 |
| NET INCOME | | 3,209,600 |
| RETAINED EARNINGS - January 1, 1971 | | 3,470,133 |
| Total | | 6,679,733 |
| DIVIDEND PAID: | | |
| Cash dividend: | | |
| On 200 shares of common stock without par value (per share, $21,500) | | 4,300,000 |
| RETAINED EARNINGS - April 30, 1971 | | $ 2,379,733 |

See Notes to Financial Statements.

# THE BUCKINGHAM CORPORATION

## NOTES TO FINANCIAL STATEMENTS
## FOR THE FOUR MONTHS ENDED APRIL 30, 1971

1. On May 10, 1971 Schenley Industries, Inc. (the Company's parent) and Northwest Industries, Inc. entered into a stock purchase agreement whereby Northwest purchased from Schenley all of the outstanding shares of capital stock of Buckingham.

2. Depreciation of furniture and fixtures is based on the straight-line method and amortization of leasehold improvements is charged to income over the term of the lease for both book and tax purposes. Depreciation and amortization expense for the four months ended April 30, 1971 was $14,197.

3. The quantity of whiskies to be blended, bottled, and exported to the Company within one year cannot now be ascertained; therefore it is not possible to state the amount of the inventories which will be realized in such period.

4. Under its trusteed Profit-Sharing Retirement Plan for employees the Company is required to make annual contributions to a Profit-Sharing Trust Fund. The accrual for the four months ended April 30, 1971 amounted to $26,000. There is no unfunded past service cost under the Plan.

5. Deferred taxes represent tax effects of items reported for tax purposes in periods different from those for book purposes. Such items include amortization, deferred compensation and provisions not deductible in the current period.

6. On May 9, 1969 a stockholder instituted an action, on behalf of himself and all other stockholders of The Buckingham Corporation similarly situated, in the Supreme Court of the State of New York against Buckingham, its officers and directors, Schenley Industries, Inc. and Glen Alden Corporation to enjoin the defendants from permitting a vote upon the adoption of the reorganization plan under which Buckingham became a wholly-owned subsidiary of BHM Industries, Inc. and from carrying such plan into effect. On May 14, 1969 a motion for a preliminary injunction in such action was denied by the Court, and on May 29, 1969 Buckingham filed its answer in such action denying the material allegations of the complaint and alleging two affirmative defenses.

   On June 30, 1969 the plaintiff moved in the above action for summary judgment declaring the reorganization plan illegal and void and directing BHM to return to the stockholders of

(Continued) 

Buckingham the stock owned by them on May 15, 1969 and for an order enjoining Schenley from acquiring any additional shares of BHM. Such motions were denied by the Court on August 4, 1969. Thereafter plaintiff moved for reargument of his motions and requested an injunction against the merger of Schenley and BHM pending the Court's decision. The defendants then cross-moved for summary judgment dismissing the complaints. Defendants' cross-motion for summary judgment was granted on September 9, 1969, but the time to file a notice of appeal has not yet expired. Plaintiff has, however, filed notices of appeal from the orders dismissing his complaints.

Buckingham is the defendant in an action instituted in Puerto Rico by its former local distributor under the Puerto Rico Dealers' Contract Law. This action is stayed pending determination of the constitutionality of the law as it affects contracts entered into prior to its passage. The United States Supreme Court has reversed a judgment of the United States Court of Appeals entered in March 1970 holding the law unconstitutional as applied to contracts made before its enactment and remanded it to be held and undetermined until the Puerto Rican Supreme Court authoritatively ruled on the local law question.

By letter dated March 18, 1971 a distributor has made a claim against Buckingham to recoup approximately $121,000 of expenditures allegedly made for advertising, over and above contributions made by Buckingham, for the years 1965 through 1970. The Company has denied any liability on this claim.

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Plaintiff

A1409 EX. 94

94 ID

SUPREME COURT OF THE STATE OF NEW YORK

COUNTY OF NEW YORK

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MOLLIE H. SANDERS, ANNE J. MATHES, HARRY LEWIS, WILLIAM B. WEINBERGER, MELVIN FEINBERG and MARGARET M.COLEGROVE, joint tenants with right of survivorship, :

Plaintiffs, :

-against- :

MESHULAM RIKLIS, ISIDORE A. BECKER, DAVID BUNIM, FRANK BURNSIDE, RALPH R. CASE, PATRICK J. CLIFFORD, MAURICE GOODMAN, LUTHER H. HODGES, JOHN W. HUMPHREY, WENTWORTH P. JOHNSON, PAUL A. JOHNSTON, SOL KITTAY, LEONARD C. LANE, DAVID FOGELSON, W. S. McDONALD, NATHANIEL LAPKIN, SAMUEL J. LEVY, AUSTIN LIST, CHARLES F. McKAHNN, M. LESTER MENDELL, GILBERT H. PERKINS, BERT R. PRALL, CARL M. SINGER, HARRY H. WACHTEL, McCRORY CORPORATION, RAPID AMERICAN CORPORATION, SERGE SEMENENKO, DAVID G. BAIRD, JOSEPH LUBIN, JACK ROSEN, FABIAN ENTERPRISES, INC., ESTATE OF SAMUEL ROSEN, DECEASED, ESTATE OF SIMON H. FABIAN, DECEASED, STANLEY WARNER CORPORATION and GLEN ALDEN CORPORATION, :

Defendants. :

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845 Third Avenue,
New York, N. Y. 10022

March 19, 1971,
2:30 p.m.

Before:

HON. SAMUEL A. NEUBERGER,

Referee

COMMERCE REPORTING COMPANY
Certified Shorthand Reporters
25 ETON ROAD
ROCKVILLE CENTRE, N. Y. 11570
(516) RO. 6-7009
150 NASSAU STREET
NEW YORK, N. Y. 10038
(212) WOrth 4-3567

SUPREME COURT OF THE STATE OF NEW YORK

COUNTY OF NEW YORK

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MOLLIE H. SANDERS, et al., etc., :

Plaintiffs, :

-against- :

MESHULAM RIKLIS, et al., :

Defendants. :

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Hearing before HON. SAMUEL A. NEUBERGER, as Referee, held pursuant to the Order of Hon. Andrew R. Tyler, Justice, Supreme Court of the State of New York, County of New York, dated March 2, 1971, "...to hear and report on the proposed settlement ...," at 845 Third Avenue, New York, N. Y. 10022, on March 19, 1971, at 2:30 p.m.

APPEARANCES:

Messrs. WOLF POPPER ROSS WOLF & JONES,
General Counsel for plaintiffs,
845 Third Avenue,
New York, N. Y. 10022
BY: PHILIP JONES, ESQ.,
MARVIN LUBOFF, ESQ.,
Of Counsel

Messrs. STULL & STULL,
Attorneys for plaintiffs Melvin Feinberg and Margaret M. Colegrove,
6 East 45th Street,
New York, N. Y. 10017
BY: ROBERT A. STULL, ESQ.,
Of Counsel

CHARLES TRYNIN, ESQ.,
Attorney for plaintiff William B. Weinberger,
230 Park Avenue,
New York, N. Y. 10017
BY: DAVID J. BERSHAD, ESQ.,
2 Pennsylvania Plaza,
New York, N. Y. 10001
Of Counsel

Messrs. STRASSER SPIEGELBERG FRIED & FRANK,
Attorneys for defendants Leonard C. Lane, Isidore A. Becker, Austin List and Glen Aldin, in some actions,
120 Broadway,
New York, N. Y. 10005
BY: LEON SILVERMAN, ESQ.,
Of Counsel

Messrs. RUBIN WACHTEL BAUM & LEVIN,
Attorneys for defendants Meshulam Riklis, Rapid American Corporation, McCrory Corporation, Estate of Simon H. Fabian, Fabian Enterprises, Inc. and Sol Kittay,
598 Madison Avenue,
New York, N. Y. 10022
BY: ABRAHAM G. LEVIN, ESQ.,
CARL ROBERT ARON, ESQ.,
Of Counsel

APPEARANCES CONT'D:

Messrs. GOLDSTEIN GURFEIN SHAMES & HYDE,
Attorneys for defendant Joseph Lubin,
655 Madison Avenue,
New York, N. Y. 10021
BY: MEL P. BARKAN, ESQ.,
Of Counsel

Messrs. POMERANTZ LEVY HAUDEK & BLOCK,
Attorneys for defendants David G. Baird
and Serge Semenenko,
295 Madison Avenue,
New York, N. Y. 10017
BY: STANLEY GROSSMAN, ESQ.,
Of Counsel

Messrs. DUGAN & ROSEN,
Attorneys for defendant Jack Rosen,
25 West 43rd Street,
New York, N. Y. 10036
BY: JOHN DUGAN, ESQ.,
Of Counsel

oOo

(In the absence of the Referee, the following stipulation was entered in the record:

IT IS HEREBY STIPULATED AND AGREED, by and among counsel for the respective parties herein, that the statutory fees for the Referee be, and they hereby are, waived and the Referee shall receive such fair and reasonable compensation as may be fixed by the Court.)

THE REFEREE: This hearing is being conducted by me, as Referee, pursuant to an order of Mr. Justice Andrew R. Tyler, Justice of the

1 continuity of your presentation.

2 Maybe I am anticipating an answer that

3 you have in your papers. While perhaps not being

4 the law of the case, was the denial of the motion

5 for an injunction, I would like to know whether or

6 not there were any changes in facts or additional

7 facts which you have or the plaintiffs' counsel

8 have obtained since that time which differed from

9 the position taken at the time of the making of the

10 motion.

11 MR. LEVIN: First, I would like to

12 say this: I would like for the documents which were

13 submitted in connection, at least, with the opposi-

14 tion to that motion to be introduced in this pro-

15 ceeding.

16 THE REFEREE: They will be, Mr. Levin.

17 MR. LEVIN: I think the annual statements

18 of the respective companies would bear out what I am

19 going to say: that what was contended to be proper

20 and prudent business judgment in 1968 with respect

21 to the future of the respective companies acquired

22 and the amounts paid for these companies, history

23 has proven this judgment to be correct.

24 As a matter of fact, Schenley and Stanley

25

Warner, to the extent to which this complaint attacks that acquisition, have proven to be very prudent and providential and wise acquisitions.

I would ask that Mr. Jones, in the presentation of his document, offer to the Referee the subsequent annual statements of both Schenley and Stanley Warner, which I think would eliminate any question whatsoever as to the wisdom of the business judgment that was entered.

THE REFEREE: It would be my judgment, legally, that even though the improvement of business conditions took place subsequent, that would not necessarily negate the allegations, although, obviously, it would be almost unbelievable not to take it into account in making some judgment as to the interpretation of prior stated facts.

I was, of course, obviously interested and am in knowing, and I assume the record will eventually show, that since the time the injunction has been denied, had it developed any material facts which might have changed the situation.

You can either answer it now, Mr. Jones, or go ahead with your presentation, if it is going to manifest itself later on.

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MEMORANDUM OF UNDERSTANDING

This Memorandum sets forth the understanding between SCHENLEY INDUSTRIES, INC., a Delaware corporation ("Schenley") and NORTHWEST INDUSTRIES, INC., a Delaware corporation ("Industries"), for the sale by Schenley to Industries (or its assignee) of all outstanding shares of capital stock of THE BUCKINGHAM CORPORATION, a Delaware corporation ("Buckingham).

A. The major terms of such sale are as follows:

1. All outstanding shares of capital stock of Buckingham are to be sold by Schenley to Industries, and purchased by Industries from Schenley, for a purchase price of $120,000,000 in cash and notes. Closing is to take place as promptly as feasible and in no event later than December 31, 1970. Industries may assign its rights in connection with the purchase to a wholly-owned subsidiary, without, however, relieving Industries of its obligations.

C. Closing will be conditional upon compliance with appropriate warranties and agreements, obtaining appropriate approvals of regulatory authorities (including U.S. Department of Justice), obtaining appropriate adjustments in the terms of Buckingham's U.K. arrangements, receiving resignations of such directors of Buckingham as Industries may designate, completion by Industries of satisfactory financing arrangements, and counsel approvals. Each of Schenley and Industries will use its best efforts to obtain approvals of regulatory authorities.

D. Obligations of each Schenley and Industries are subject to their execution and delivery of a formal agreement, setting forth detailed terms applicable to this transaction.

DATED: October 30th, 1970.

SCHENLEY INDUSTRIES, INC.

By _____ Chairman of the Board

NORTHWEST INDUSTRIES, INC.

By _____ President

2. Schenley will guarantee that:

(a) Buckingham's Net Worth, at Closing, computed in accordance with accepted accounting principles consistently followed by Buckingham, will be not less than $15,000,000.

(b) 1970 Cutty-Sark depletions will exceed 1970 Cutty Sark sales by Buckingham by at least 100,000 cases. Payment is to be made by Schenley to Industries promptly after 1970 figures become available, at the rate of $9.30 per Cutty Sark Case for any failure to meet this requirement.

(c) Cutty Sark depletions in the five year period 1971-1975 will average annually 2,150,000 cases. Payment is to be made by Schenley promptly after the close of any year in the five year period for any depletions deficiency (not previously paid) at the close of such year on the basis of $9.30 per Cutty Sark case; any payment by Schenley for depletions deficiency in any year which is recouped in any subsequent year in the five year period is (to the extent not previously paid) to be repaid to it promptly after the close of such subsequent year on the basis of $9.30 per Cutty Sark case.

Cutty SArk depletions in any year shall be determined in accordance with Buckingham's past practices. It is understood that under these practices, such depletions mean (i) Cutty Sark sales by Buckingham distributors in non-control

EXHIBIT 11A 10

A1414.4

[CONFORMED]

# STOCK PURCHASE AGREEMENT

THIS AGREEMENT, dated the 10th day of May, 1971, by and between SCHENLEY INDUSTRIES, INC., a Delaware corporation (hereinafter called "Schenley") and NORTHWEST INDUSTRIES, INC., a Delaware corporation (hereinafter called "Northwest"),

WITNESSETH

WHEREAS, Schenley and Northwest on October 30, 1970, entered into a Memorandum of Understanding respecting the purchase by Northwest from Schenley, and the sale by Schenley to Northwest, of all of the outstanding shares of capital stock of Buckingham (hereinafter defined); and

WHEREAS, such Memorandum of Understanding provided that the obligations of Schenley and Northwest were subject to their execution and delivery of a formal agreement setting forth the detailed terms applicable to the transaction provided for therein; and

WHEREAS, Schenley and Northwest by this Agreement desire to set forth the detailed terms applicable to such transaction; and

WHEREAS, Schenley has been ordered to divest itself of Buckingham pursuant to the Divestiture Decree (hereinafter defined);

NOW, THEREFORE, for and in consideration of the mutual agreements hereinafter contained, Schenley and Northwest, the parties hereto, agree and warrant as follows:

1. **Certain Definitions.** The following terms when used in this Agreement or in any Schedule referred to herein shall have, unless the context otherwise requires, the meanings set forth below, and each such term defined in the singular shall include the plural and each such term defined in the plural shall include the singular.

The term "affiliate," when used to indicate a relationship with any person, shall mean any other person directly or indirectly controlling, controlled by or under common control with such person.

The term "this Agreement" shall mean this Agreement, including any amendment which may hereafter be made thereto, and also including the writing referred to in Section 8.03 designating the Base Dollar Amount for the purposes of such Section.

The term "associate," when used to indicate a relationship with any person, shall mean any other person of which such person is a director, officer, partner or trustee, or in which such person has directly or indirectly a substantial beneficial interest.

The term "Bank Credit Agreement" shall mean that certain agreement, entitled Bank Credit Agreement, dated as of February 10, 1971, between Northwest, The First National Bank of Chicago, individually and as Agent, and the other banks named therein, providing for loans to Northwest in the aggregate principal amount of $80,000,000, a true and correct copy of such agreement having been furnished by Northwest to Schenley on or prior to the execution and delivery of this Agreement.

The term "Buckingham" shall mean The Buckingham Corporation, a Delaware corporation.

The term "Closing Date" shall mean the time and date of closing provided for in Section 2.03.

The term "Common Stock" shall mean common stock, without par value, of Buckingham.

The term "Divestiture Decree" shall mean the decree filed on February 25, 1971 and entered March 29, 1971 in the United States District Court for the Southern District of New York in the action entitled *United States of America* v. *Schenley Industries, Inc. and The Buckingham Corporation*, 66 Civ. 1175.



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The term "governmental authority" shall mean any government or governmental instrumentality, department, commission, board or agency.

The terms "hereunder," "hereto," and "hereby," and similar terms, refer to this Agreement and not to any particular Section or provision of this Agreement.

The term "including" shall mean including, without limiting the generality of any language which precedes such term.

The term "Jahn Agreement" shall mean the Agreement, dated July 2, 1969 as amended March 12, 1970, between Buckingham and Walter J. Jahn Company, Inc., and any amendment which may be hereafter and prior to the Closing Date made thereto with the written approval of Schenley and Northwest.

The term "Note Purchase Agreements" shall mean those certain agreements, each entitled "Note Purchase Agreement", dated as of May 10, 1971, between Northwest and respectively Schenley, The Travelers Insurance Company, Massachusetts Mutual Life Insurance Company and Continental Assurance Company, executed and delivered on or prior to the execution and delivery of this Agreement.

The term "9½% Notes" shall mean the 1979 Notes and the 1986 Notes; the term "1979 Notes" shall mean the 1979 Notes as defined in the Note Purchase Agreements; and the term "1986 Notes" shall mean the 1986 Notes as defined in the Note Purchase Agreements.

The term "person" shall mean any natural person, corporation, firm, joint venture, trust, association, other unincorporated organization or governmental authority.

The term "Sales Agency Agreement" shall mean that certain Agreement, dated December 29, 1961 and amended December 30, 1965, between Berry Bros. & Rudd Limited and Buckingham, and any amendment which may be hereafter and prior to the Closing Date made thereto with the written approval of Schenley and Northwest.

The term "Section" shall mean a Section of this Agreement.

The term "Tri-Partite Agreement" shall mean that certain Agreement dated November 15, 1962 between Berry Bros. & Rudd Limited, Robertson & Baxter Limited and Buckingham, and any amendment which may be hereafter and prior to the Closing Date made thereto with the written approval of Schenley and Northwest.

**2. Sale and Purchase of Shares of Common Stock of Buckingham.**

**2.01. Agreements to Sell and Purchase.** Subject to the terms and conditions of this Agreement, Schenley agrees to sell to Northwest, and Northwest agrees to purchase from Schenley, 200 shares of Common Stock of Buckingham at an aggregate purchase price of One Hundred Twenty Million Dollars ($120,000,000), payable by Northwest to Schenley on the Closing Date, (a) to the extent of $103,000,000 thereof, in cash and (b) to the extent of $17,000,000 (the remainder) thereof, in 1979 Notes in like aggregate principal amount. The 1979 Notes shall be dated the Closing Date and shall be issued pursuant to and in the form of the 1979 Notes provided for in the Note Purchase Agreements. Schenley and Northwest each agrees to perform, subject to the terms and conditions of the Note Purchase Agreements and this Agreement, its obligations under the Note Purchase Agreements and Schenley agrees to execute and deliver, and to cause Glen Alden Corporation to execute and deliver, subject to the terms and conditions of this Agreement and the Note Purchase Agreements, the Guarantee provided for under the Note Purchase Agreements.

**2.02. Delivery of Shares, Etc.** On the Closing Date, Schenley shall deliver to Northwest certificates evidencing 200 shares of Common Stock of Buckingham, duly endorsed and with all required stock transfer tax stamps, if any, duly affixed, against delivery to or upon the order of Schenley of (a) Federal funds in the amount of $103,000,000 available immediately to Schenley in its account with The First National

Bank of Chicago and (b) 1970 Notes in the aggregate principal amount of $17,000,000. Schenley agrees to cause Buckingham to take such action as Northwest may reasonably request in order to permit Northwest to effect delivery, in the manner required by the pledge agreement provided for under the Bank Credit Agreement, of certificates evidencing such shares.

**2.03. Closing Date.** The closing of the sale provided for hereunder shall take place at the office of The First National Bank of Chicago, One First National Plaza, Chicago, Illinois, at the hour of 11:00 A.M., Chicago time, on May 10, 1971, or at such other time or place as Northwest and Schenley may mutually agree upon.

**2.04. Resignations of Directors of Buckingham, Etc.** On the Closing Date, Schenley shall cause to be delivered to Northwest such resignations of the directors of Buckingham and of Buckingham Distributors, Inc. as Northwest may designate by notice to Schenley prior to the execution and delivery of this Agreement.

**2.05. Closing as of April 30, 1971.** It shall be considered that the purchase contemplated hereunder is consummated on April 30, 1971, notwithstanding that the Closing Date shall occur thereafter. Accordingly, Northwest shall be entitled to the benefit of the net income, or subject to the detriment of the net loss, of Buckingham for the period from April 30, 1971 to the Closing Date, and Schenley shall be entitled to the benefit of, and on the Closing Date Northwest shall pay to Schenley in cash, interest on the aggregate purchase price for the period from April 30, 1971 to the Closing Date on the amount of $40,000,000 thereof at the rate of 9½% per annum and on the amount of $80,000,000 thereof at a rate equal to ½% above the prime rate of interest from time to time prevailing during such period of The First National Bank of Chicago.

**3. Warranties of Schenley.** Schenley warrants unto and agrees with Northwest as provided in Sections 3.01 through 3.20.

**3.01. Organization, etc. of Buckingham.** Buckingham is, and on the Closing Date will be, a duly organized and existing corporation under the laws of Delaware, in good standing therein and duly qualified and in good standing as a foreign corporation in each jurisdiction in which the ownership of its property or the conduct of its business makes such qualification necessary. Buckingham is not, and on the Closing Date will not be, a carrier subject to regulation under the Interstate Commerce Act and does not, and on the Closing Date will not, control any such carrier.

**3.02. Organization, etc. of Buckingham Distributors, Inc.** Buckingham has, and on the Closing Date will have, no subsidiaries, except Buckingham Distributors, Inc., all outstanding shares of capital stock of which are, and on the Closing Date will be, owned by Buckingham; no rights, options, warrants, conversion rights or agreements for the purchase or other acquisition from, or sale or issuance by, Buckingham Distributors Inc. of any shares of its capital stock are, or on the Closing Date will be, outstanding; Buckingham Distributors, Inc. is, and on the Closing Date will be, a duly organized and existing corporation under the laws of Delaware, in good standing therein and duly qualified and in good standing as a foreign corporation in each jurisdiction in which the ownership of its property or the conduct of its business makes such qualification necessary; and Buckingham Distributors, Inc. does not own any properties or assets in excess of a nominal amount and is not a party to any arrangement with any other person which has not been disclosed by Buckingham to Northwest prior to the execution and delivery of this Agreement, and has not since December 31, 1970 engaged in, and will not prior to the Closing Date engage in, any transaction except in accordance with and pursuant to any such arrangement.

**3.03. Licenses, etc. of Buckingham and Buckingham Distributors, Inc.** Buckingham and Buckingham Distributors, Inc. each has, and on the Closing Date will have, all material licenses, registrations, permits and authorities, all in full force and effect, required of Buckingham, as a wholly-owned subsidiary of Schenley, or of Buckingham Distributors, Inc., as a wholly-owned subsidiary of Buckingham, by the

nature of its business by all Federal, State and other laws, including those related to the importation, sale and distribution of alcoholic liquor.

**3.04. Capital Stock of Buckingham.** The authorized capital stock, and the issued and outstanding shares of capital stock, of Buckingham consists, and on the Closing Date will consist, of 200 shares of Common Stock; all issued and outstanding shares of Common Stock of Buckingham have been validly issued and are fully paid and non-assessable, with no personal liability attaching to the ownership thereof; and no rights, options, warrants, conversion rights or agreements for the purchase or other acquisition from, or sale or issuance by, Buckingham of any shares of its capital stock are, or on the Closing Date will be, outstanding.

**3.05. Schenley's Ownership of Shares of Buckingham.** Schenley is, and on the Closing Date will be, the owner, free and clear of any lien, encumbrance or claim whatever, of 200 shares of Common Stock of Buckingham, being all the issued and outstanding shares of capital stock of Buckingham; and Schenley has, and upon consummation of the sale and transfer of such shares to Northwest, Northwest will acquire, title to such shares free and clear of any lien, encumbrance or claim, except those, if any, arising from any action on the part of Northwest.

**3.06. Financial Statements of Buckingham.** Schenley has furnished to Northwest the following financial statements of Buckingham: balance sheets as of December 31, 1968, December 31, 1969 and December 31, 1970, and statements of income for the respective years then ended, certified by Haskins & Sells; and such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, except as otherwise may be stated therein, and fairly present the financial position of Buckingham as of the respective dates and the results of its operations for the respective periods indicated.

**3.07. Absence of Material Adverse Change, Etc.** Since December 31, 1970, there has not been (a) any material adverse change in the financial condition, business, properties or assets of Buckingham, or (b) any material loss or damage to any of its property or assets (whether or not covered by insurance) which materially adversely affects its ability to conduct its business.

**3.08. Transactions in Ordinary Course.** Buckingham has not since December 31, 1970 entered into any transaction not in the ordinary course of business, except as may be disclosed in a Schedule, dated the date hereof, entitled "Certain Transactions of Buckingham," signed by the Chairman, President or Executive Vice President of Buckingham, and furnished by Schenley to Northwest prior to the execution and delivery of this Agreement, and has not after April 30, 1971 taken any action which under the provisions of Section 5.05 it is not permitted to take after the date hereof.

**3.09. Taxes.** Buckingham has duly filed all Federal, State and local tax returns and reports required to be filed by it, and has duly paid, or established adequate reserves for the payment of, all taxes and other governmental charges upon it or any of its properties, assets, income, franchises, licenses, imports or sales which are due and payable in accordance with such returns or reports or in accordance with any assessments received by it. The Internal Revenue Service has audited and settled all federal income tax returns of Buckingham for all fiscal periods ending on or prior to December 31, 1968. The charges accrued and reserves shown in the balance sheet as at December 31, 1970 of Buckingham referred to in Section 3.06 in respect of taxes for all fiscal periods to the date of such balance sheet are adequate and Buckingham does not know of any material unpaid assessment or proposal by any taxing authority or agency, or any basis therefor, for additional taxes, for which it does not have adequate reserves as shown in such balance sheet.

**3.10. Title to Properties.** Buckingham has, and on the Closing Date will have, good and marketable title to all its properties and assets, real and personal, including all those reflected in the balance sheet as at December 31, 1970 referred to in Section 3.06, except those since disposed of in the ordinary course of business, subject to no lien, encumbrance or claim, except for liens for taxes the payment of which is neither delinquent nor subject to penalties or the payment of which is being contested in good faith, and

for any other imperfections in title, liens, encumbrances and claims, which in the aggregate do not materially and adversely affect the financial condition of Buckingham or materially and adversely impair its operations, and except that inventories in Scotland and England of bulk Scotch whiskies are held subject to certain understandings with Berry Bros. & Rudd Limited and Robertson & Baxter Limited and that rights under any contract are subject to the terms of such contract.

**3.11. Trademarks, Etc.** Buckingham owns or possesses, and on the Closing Date will own and possess, subject to the provisions of the Sales Agency Agreement and the Tri-Partite Agreement, the right to use all trademarks, service marks, trade names, copyrights and licenses, and rights with respect to the foregoing, necessary for the conduct of its business as now conducted, without any known material conflict or claimed conflict with the rights of others.

**3.12. Insurance.** A Schedule, dated the date hereof, entitled "Insurance of Buckingham", signed by the Chairman, President or Executive Vice President of Buckingham and furnished by Schenley to Northwest prior to the execution and delivery of this Agreement, describes all insurance maintained at the date hereof by Buckingham.

**3.13. Litigation; Compliance with Law.** A Schedule, dated the date hereof, entitled "Litigation and Disputes Affecting Buckingham", signed by the Chairman, President or Executive Vice President of Buckingham and furnished by Schenley to Northwest prior to the execution and delivery of this Agreement, adequately describes all litigation, proceedings and investigations pending, or to the knowledge of Schenley or Buckingham threatened, at the date hereof, which seeks to prevent the consummation of any transaction contemplated hereunder, or which, if adversely determined, might result in any material adverse change in the financial condition or business of Buckingham; and to the best of the knowledge of each of Schenley and Buckingham, Buckingham and Buckingham Distributors, Inc. each has complied in all material respects with all laws and regulations applicable to it in the conduct of its business, and except as otherwise indicated in such Schedule, no complaint has been made or filed by or before any governmental authority concerning the distribution and sale by Buckingham of any products, whether in connection with pricing, labelling, advertising or otherwise.

**3.14. Disputes with Third Parties.** To the best of the knowledge of each of Schenley and Buckingham, there is no dispute existing at the date hereof between Buckingham and any third party with respect to any material amount or item, except as otherwise indicated in the Schedule referred to in Section 3.13.

**3.15. Contractual Commitments.** A Schedule, dated the date hereof, entitled "Certain Contractual Commitments and Transactions of Buckingham", signed by the Chairman, President or Executive Vice President of Buckingham, and furnished by Schenley to Northwest prior to the execution and delivery of this Agreement, identifies, subject to the provisions of this Section, each contractual commitment (whether written or oral) and each arrangement of Buckingham existing at April 30, 1971 or at the date hereof, or proposed to be entered into by Buckingham, and which falls into one or more of the following categories:

(a) a commitment or arrangement involving a transaction not in the ordinary course of business, it being understood that the following subparagraphs of this Section are not intended to define or limit the operation of this subparagraph (a);

(b) a commitment or arrangement involving any transaction with Schenley, or any affiliate of Schenley, or any officer or director of Schenley or of any affiliate thereof, or any associate of any such officer or director;

(c) a commitment for the purchase or sale by or lease to Buckingham of any property or for the receipt or furnishing by it of any services (including any employment, sales agency, sales representative, marketing or distribution agreement), which by its terms either (i) is not to be fully performed within six months after the date hereof, excepting however any such commitment which by its terms is terminable by Buckingham (without penalty and without liability for any period

after termination) at any time upon not more than six months prior notice, or (ii) except for any orders by Buckingham for the purchase by it of Buckingham Products (as defined in Section 8.03), requires (regardless of any election by Buckingham to terminate) payment after April 30, 1971 or after the date hereof by Buckingham of an aggregate amount in excess of $100,000;

(d) an agreement with any union covering employees in any bargaining unit; and

(e) a pension, retirement, profit-sharing, incentive compensation, bonus or deferred compensation arrangement.

Such Schedule describes all express commitments (either written or oral) binding upon Buckingham made since January 1, 1969 granting to any distributor an exclusive territory, except for any such commitment where Buckingham may, by the terms of such commitment, appoint an additional distributor or distributors after reasonable notice to the first distributor. Such Schedule need not describe, and no warranty is made in this Agreement as to, any such express commitment which may have been made prior to January 1, 1969 or any implied commitment arising out of a course of dealing or otherwise prior to January 1, 1969.

**3.16. Sales Agency, Tri-Partite and Jahn Agreements, Etc.** The Sales Agency Agreement, Tri-Partite Agreement and Jahn Agreement are in full force and effect on the date hereof and no default on the part of Buckingham exists under any thereof or under any other material agreement or obligation on the part of Buckingham.

**3.17. Absence of Unusual Factors.** No officer of Buckingham or Schenley knows of anything of an unusual nature which has arisen and which has materially and adversely affected, or is likely to materially and adversely affect, the business of Buckingham.

**3.18. Correctness of Information.** The copies which have been furnished by or on behalf of Schenley or Buckingham to Northwest, its accountants, counsel or its representatives of the written contractual commitments and arrangements disclosed in the Schedule referred to in Section 3.15 and of the documents listed in the Schedule, dated the date hereof, entitled "Certain Information Furnished to Northwest," signed by the Chairman, President or Executive Vice President of Buckingham and delivered by Schenley to Northwest prior to the execution and delivery of this Agreement, are true and correct copies thereof; all information furnished by or on behalf of Buckingham to Northwest, its accountants, counsel or representatives which is described in such Schedule entitled "Certain Information Furnished to Northwest" or which is set forth in any other Schedule previously referred to in this Agreement is true and correct in all material respects as of the date as of which such information was so furnished; and all statements in any certificate furnished on the Closing Date to Northwest pursuant to Section 6.03 will be true and correct on the Closing Date.

**3.19. Propriety of Corporate Action.** Schenley is, and on the Closing Date will be, a duly organized and existing corporation under the laws of Delaware, in good standing therein; all corporate and other proceedings to be taken by or on the part of Schenley to authorize it to execute and deliver and perform its obligations under this Agreement and its Note Purchase Agreement have been duly and properly taken; the execution and delivery by Schenley of this Agreement and its Note Purchase Agreement and performance by it of its obligations hereunder (including the sale and transfer of shares of Common Stock of Buckingham) and thereunder will not conflict with or constitute any breach of any agreement to which Schenley, Buckingham or any other affiliate of Schenley is a party or is otherwise bound, provided that Schenley applies a portion of the cash proceeds of the sale of the shares of Common Stock of Buckingham hereunder to the prepayment in full of Schenley's 3% Notes due November 1, 1975, outstanding on December 31, 1970 in the aggregate principal amount of $10,500,000; and each of this Agreement and its Note Purchase Agreement, at the time of delivery hereof and thereof, will have been validly executed and delivered by Schenley and will be its valid and binding obligation.

**3.20. Consents and Approvals.** No consent, approval or authorization of, or designation, declaration or filing by Schenley or any affiliate thereof with, any governmental authority is or will be required in

connection with the execution or delivery by Schenley of this Agreement or the consummation on the part of Schenley of the transactions by it contemplated hereby, other than (a) any required report to the Federal Trade Commission of the transactions contemplated hereby, (b) any approval which may be required by reason of the Divestiture Decree, and (c) any required filing of reports with the Securities and Exchange Commission or any securities exchange. The provisions of this Section do not apply to any consent, approval or authorization which Buckingham or any affiliate thereof may be required to obtain, or to any action which Buckingham or any affiliate thereof may be required to take, in order to continue in effect or obtain on and after the Closing Date any license or permit.

**4. Warranties of Northwest.** Northwest warrants unto and agrees with Schenley as provided in Sections 4.01 through 4.07.

**4.01. Organization of Northwest.** Northwest is, and on the Closing Date will be, a duly organized and existing corporation under the laws of Delaware, in good standing therein.

**4.02. Correctness of Information.** All statements in any certificate furnished on the Closing Date to Schenley pursuant to Section 7.01 will be true and correct on the Closing Date.

**4.03. Warranties under Note Purchase Agreements.** All warranties of Northwest under the Note Purchase Agreements are true and correct in all material respects.

**4.04. Propriety of Corporate Action.** All corporate and other proceedings to be taken by or on the part of Northwest to authorize it to execute and deliver and perform its obligations under this Agreement, the Bank Credit Agreement (and the pledge agreement provided for therein) and the Note Purchase Agreements (and the pledge agreement provided for therein) have been duly and properly taken, and the performance by it of its obligations hereunder and thereunder will not conflict with or be a breach of any agreement to which Northwest or any affiliate thereof is a party or otherwise bound; and each of this Agreement, and the Bank Credit Agreement (and the pledge agreement provided for therein), at the time of delivery hereof and thereof, will have been validly executed and delivered by Northwest and will be its valid and binding obligation.

**4.05. Note Purchase Agreements and 1979 Notes.** On the Closing Date, each Note Purchase Agreement (and the pledge agreement provided for therein) will have been validly executed and delivered by Northwest and will be its valid and binding obligation; and the 1979 Notes delivered on the Closing Date to Schenley will be validly issued and delivered and the valid and binding obligations of Northwest.

**4.06. Consents and Approvals.** No consent, approval or authorization of, or designation, declaration or filing on the part of Northwest or any affiliate thereof with, any governmental authority is or will be required, by reason of any action taken by Northwest or any affiliate thereof on or prior to the Closing Date, in connection with the execution or delivery by Northwest of this Agreement or the consummation on the part of Northwest of the transactions by it contemplated hereby, other than (a) any required report to the Federal Trade Commission of the transactions contemplated hereby, (b) any approval which may be required by reason of the Divestiture Decree, and (c) any required filing of reports with the Securities and Exchange Commission or any securities exchange. The provisions of this Section do not apply to any consent, approval or authorization which Buckingham or any affiliate thereof may be required to obtain, or to any action which Buckingham or any affiliate thereof may be required to take, in order to continue in effect or obtain on and after the Closing Date any license or permit.

**4.07. Purchase of Common Stock of Buckingham for Investment.** The shares of Common Stock of Buckingham purchased hereunder by Northwest will be acquired by it for investment and not with a view to sale or distribution, or with any present intention of selling any thereof.

**5. Agreements of Schenley Applicable to Period up to Closing Date.** Schenley agrees that, from and after the date hereof and up to the Closing Date, Buckingham will comply with the requirements of Sections 5.01 through 5.07, except to the extent Northwest may otherwise consent in writing.

**5.01. Transactions in Ordinary Course.** Buckingham will not enter into any transaction not in the ordinary course of business, and, without limiting the foregoing, will not enter into any contractual commitment or arrangement which falls into one or more of the categories described in subparagraphs (a) through (e) of Section 3.15, or incur any indebtedness for borrowed money, except that Buckingham may enter into any contractual commitment or arrangement disclosed in the Schedule referred to in Section 3.15 as proposed to be entered into by Buckingham.

**5.02. Maintenance of Properties.** Buckingham will maintain all its properties in good repair, order and condition (reasonable wear and use and damage by fire or other casualty excepted), and will maintain with reputable insurers at least the same amount of coverage as is provided by the insurance described in the Schedule referred to in Section 3.12.

**5.03. Maintenance of Records.** Buckingham will maintain its books, accounts and records in the usual manner, on a basis consistent with prior years.

**5.04. Compliance With Law.** Buckingham and Buckingham Distributors, Inc., each will duly comply in all material respects with all laws and regulations applicable to it and the conduct of its business.

**5.05. Restriction on Dividends, Certain Loans, Etc.** Buckingham will not declare, pay or make any dividend or other distribution on or with respect to any shares of its capital stock, will not purchase any shares of its capital stock and will not make any loan to Schenley or any affiliate thereof, or any officer or director of Schenley or of any affiliate thereof, or any associate of any such officer or director.

**5.06. Performance of Contract Obligations.** Buckingham will perform all of its obligations under the Sales Agency Agreement, the Tri-Partite Agreement, the Jahn Agreement, any agreement between Buckingham and any distributor, and any other commitment or arrangement disclosed in the Schedule referred to in Section 3.15, and, except as may be otherwise disclosed in such Schedule, will not amend or terminate, consent to the amendment or termination of, or waive any right of termination of, any thereof.

**5.07. Access to Records.** Buckingham will give to Northwest, and to its counsel, accountants and other representatives full access, during normal business hours, to all of the properties, books, tax returns, contracts, commitments and records of Buckingham and its predecessors, including, to the extent available to Buckingham, the working papers of its independent public accountants, and Buckingham will furnish to Northwest, and to its counsel, accountants and other representatives, all such documents (certified if requested) and information with respect to the affairs of Buckingham as any of them may reasonably request.

**6. Conditions to Obligations of Northwest on Closing Date.** The obligations of Northwest to consummate on the Closing Date the transactions contemplated hereunder to be then consummated by it are subject to the fulfillment, on or prior to the Closing Date, of each of the conditions provided for in Sections 6.01 through 6.10, except to the extent, if any, that Northwest shall waive any one or more thereof in whole or in part.

**6.01. Performance by Schenley of Warranties and Agreements.** The warranties hereunder of Schenley shall be true and correct in all material respects and all terms, agreements, undertakings and conditions to be complied with or performed by Schenley at or prior to the Closing Date shall have been complied with and performed by it in all material respects.

**6.02. Absence of Change to Closing Date.** The warranties of Schenley in Sections 3.07, 3.16 and 3.17 shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date; and except as described in the Schedule referred to in Section 3.13, there shall not be pending, or to the knowledge of Schenley or Buckingham threatened, as of the Closing Date, any litiga-

tion, proceeding or investigation, which, if adversely determined, might have a material adverse effect on the financial condition or business of Buckingham, or which seeks to prevent the consummation of any transaction contemplated hereunder; and no developments shall have occurred after the date hereof and prior to the Closing Date with respect to any litigation, proceeding, investigation, complaint or dispute described in such Schedule which might have a material adverse effect on the financial condition or business of Buckingham or the consummation of any transaction contemplated hereunder.

**6.03. Certificate of Schenley and Buckingham.** There shall have been delivered to Northwest a certificate, dated the Closing Date and signed by the Chairman of the Board, President or any Vice President of Schenley, certifying that to the best of his knowledge and belief the conditions provided for in Sections 6.01 and 6.02 have been fulfilled, and a certificate, dated the Closing Date and signed by the Chairman, President or Executive Vice President of Buckingham, certifying in such detail as Northwest may reasonably request to the fulfillment of such conditions.

**6.04. Department of Justice Approval.** Approval, in form and substance satisfactory to counsel for Northwest, shall have been obtained from the Department of Justice of the United States under the Divestiture Decree and shall be in full force and effect, for the sale by Schenley to Northwest of the shares of Common Stock of Buckingham to be purchased by Northwest hereunder.

**6.05. Schenley 3% Notes.** Schenley shall have made arrangements satisfactory to counsel for Northwest for the prepayment in full of Schenley's 3% Notes, due November 1, 1975, outstanding on December 31, 1970 in the aggregate principal amount of $10,500,000, or shall have obtained, in a manner satisfactory to counsel for Northwest, waiver of such prepayment from the holders of such Notes.

**6.06. Certain Licensing Approvals.** Approvals, in form and substance satisfactory to counsel for Northwest, with respect to the transfer to and ownership by Northwest of all outstanding shares of capital stock of Buckingham shall have been obtained under the Federal Alcohol Administration Act.

**6.07. Bank Loans.** No condition (other than any condition which arises as a result of any breach by Northwest of any warranty or agreement on its part, or with which Northwest is able to comply or which such bank shall waive) shall exist to the obligation under the Bank Credit Agreement of any bank to lend on the Closing Date to Northwest the loan provided in the Bank Credit Agreement to be made by such bank to Northwest.

**6.08. Note Purchase Agreements.** No condition (other than any condition which arises as a result of any breach by Northwest of any warranty or agreement on its part, or with which Northwest is able to comply or which such purchaser shall waive) shall exist to the obligation of any purchaser under its Note Purchase Agreement to purchase on the Closing Date from Northwest the 9½% Notes to be purchased by such purchaser as provided in its Note Purchase Agreement.

**6.09. Opinion of Counsel for Schenley.** There shall have been delivered to Northwest a favorable opinion, dated the Closing Date and addressed to Northwest and in form and substance satisfactory to counsel for Northwest, of Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel for Schenley, to the following effect:

(a) Buckingham is a duly organized and existing corporation under the laws of the State of Delaware and in good standing therein, with corporate power and authority to own its property and conduct its business and duly qualified to do business as a foreign corporation in good standing in each jurisdiction in which the ownership of its property or the conduct of its business makes such qualification necessary;

(b) Buckingham Distributors, Inc. is a duly organized and existing corporation under the laws of the State of Delaware and in good standing therein, with corporate power and authority to own its property and conduct its business and duly qualified to do business as a foreign corporation in

good standing in each jurisdiction in which the ownership of its property or the conduct of its business makes such qualification necessary;

(c) The authorized capital stock of Buckingham and the number of shares thereof outstanding on the Closing Date are as warranted in Section 3.01; all of such outstanding shares are validly issued, fully paid and non-assessable with no personal liability attaching to the ownership thereof; and such counsel has no knowledge of any right, option, warrant, conversion right or agreement for the purchase or other acquisition from, or sale or issuance by, Buckingham of any shares of its capital stock;

(d) All issued and outstanding shares of capital stock of Buckingham Distributors, Inc. are owned and held by Buckingham; and such counsel has no knowledge of any right, option, warrant, conversion right or agreement for the purchase or other acquisition from, or sale or issuance by, Buckingham Distributors, Inc. of any shares of its capital stock;

(e) Schenley is a duly organized and existing corporation under the laws of the State of Delaware and in good standing therein; all corporate and other proceedings required to be taken by or on the part of Schenley to authorize it to execute, deliver and perform its obligations under this Agreement and its Note Purchase Agreement have been duly and properly taken; no approval of any governmental authority is required for the authorization, execution or delivery by Schenley of this Agreement or its Note Purchase Agreement or the performance of its obligations hereunder or thereunder, except for any approval which may be required by reason of the Divestiture Decree and which such opinion shall state has been duly obtained and is in full force and effect, and except for any other approval which may be specified in such opinion and which such opinion shall state has been duly obtained and is in full force and effect; this Agreement and its Note Purchase Agreement each has been duly executed by Schenley and is a valid and binding obligation on the part of Schenley; and the execution and delivery by Schenley of this Agreement and its Note Purchase Agreement and the performance by it of its obligations hereunder (including the transfer and delivery of shares of Common Stock of Buckingham) and thereunder do not conflict with or constitute any breach of any agreement, of which such counsel has knowledge, to which Schenley or Buckingham, or any other affiliate of Schenley, is a party or is otherwise bound;

(f) Schenley has valid and marketable title to the shares of Common Stock of Buckingham, certificates evidencing which are being delivered hereunder by Schenley on the Closing Date, and full legal right and all authorization and approval required by law to sell and transfer such shares pursuant to this Agreement and such delivery of certificates by Schenley will pass title to Northwest to such shares free and clear of any claim, lien or encumbrance whatsoever, except those, if any, arising from any action on the part of Northwest;

(g) Such counsel has no knowledge, except as may be otherwise stated in such opinion, of any litigation, proceeding or investigation pending or threatened against Buckingham or Buckingham Distributors, Inc. which is not described in the Schedule referred to in Section 3.13, and which, if adversely determined, might have a material adverse effect on the financial condition or business of Buckingham, or which seeks to prevent the consummation of any transaction contemplated hereunder;

(h) Such counsel has no knowledge of any default by Buckingham or Buckingham Distributors, Inc. under any material agreement or obligation on its part, except as may be otherwise stated in such opinion; and

(i) Nothing has come to the knowledge of such counsel which would indicate that Schenley had breached any of its warranties hereunder or any obligation to be performed by it hereunder on or prior to the Closing Date, except as may be otherwise stated in such opinion.

In rendering such opinion such counsel may rely as to factual matters upon information, as to which it has no knowledge to the contrary, set forth in a certificate of an officer of Schenley or of Buckingham,

and may also rely with respect to any legal matter upon any opinion of other counsel satisfactory to such counsel. Nothing in this Section shall require such counsel to render any opinion as to the effect, if any, of, and any opinion rendered pursuant to this Section may be subject to, any consent, approval or authorization which Buckingham or any affiliate thereof may be required to obtain, or any action which Buckingham or any affiliate thereof may be required to take, in order to continue in effect or obtain on and after the Closing Date any license or permit.

**6.10. Approval of Counsel for Northwest.** The legality of all matters in connection with the carrying out and performance of all warranties and other obligations of Schenley under this Agreement and its Note Purchase Agreement shall have been approved by Messrs. Mayer, Brown & Platt, counsel for Northwest, which approval shall not be unreasonably withheld.

**7. Conditions to Obligations of Schenley on Closing Date.** The obligations of Schenley to consummate on the Closing Date the transactions contemplated hereunder to be then consummated by it are subject to the fullfillment, on or prior to the Closing Date, of each of the conditions provided for in Sections 7.01 through 7.06, except to the extent, if any, that Schenley shall waive any one or more thereof in whole or in part.

**7.01. Performance by Northwest of Warranties and Agreements.** The warranties hereunder of Northwest shall be true and correct in all material respects and all terms, agreements, undertakings and conditions to be complied with and performed by Northwest at or prior to the Closing Date shall have been complied with and performed by it in all material respects; and there shall have been delivered to Schenley a certificate dated the Closing Date and signed by the President or a Vice President of Northwest certifying in such detail as Schenley may reasonably request to the fullfillment of the conditions provided for in this Section.

**7.02. Note Purchase Agreement.** No condition (other than any condition which arises as a result of any breach by Schenley of any warranty or agreement on its part) shall exist to the obligation of Schenley under its Note Purchase Agreement to acquire on the Closing Date the 1979 Notes in the aggregate principal amount of $17,000,000.

**7.03. Department of Justice Approval.** Approval, in form and substance satisfactory to counsel for Schenley, shall have been obtained from the Department of Justice of the United States under the Divestiture Decree, and shall be in full force and effect, for the sale by Schenley to Northwest of the shares of Common Stock of Buckingham to be purchased by Northwest hereunder.

**7.04. Absence of Litigation, Etc.** Except as described in the Schedule referred to in Section 3.13, there shall not be pending, or to the knowledge of Schenley or Buckingham threatened, as of the Closing Date, any litigation, proceeding or investigation which, if adversely determined, might have a material adverse effect on the business of Buckingham, or which seeks to prevent the consummation of any transaction contemplated hereunder.

**7.05. Opinion of Counsel for Northwest.** There shall have been delivered to Schenley a favorable opinion, dated the Closing Date and addressed to Schenley and in form and substance satisfactory to counsel for Schenley, of Messrs. Mayer, Brown & Platt, counsel for Northwest, to the following effect:

(a) Northwest is a duly organized and existing corporation under the laws of the State of Delaware and in good standing therein;

(b) All corporate and other proceedings to be taken by or on the part of Northwest to authorize it to execute, deliver and perform its obligations under this Agreement, the Bank Credit Agreement (and the pledge agreement provided for therein) and the Note Purchase Agreements (and the pledge agreement provided for therein) have been duly and properly taken; no approval of any governmental authority is required for the authorization, execution or delivery by it of this Agreement, the Bank Credit Agreement (or the pledge agreement provided for therein) or the Note Purchase

Agreements (or the pledge agreement provided for therein) or the performance of its obligations hereunder or thereunder, except for any approval which may be required by reason of the Divestiture Decree, and except for any other approval which may be specified in such opinion and which such opinion shall state has been duly obtained and is in full force and effect; this Agreement, the Bank Credit Agreement (and the pledge agreement provided for therein) and each Note Purchase Agreement (and the pledge agreement provided for therein) each has been duly executed and delivered by Northwest and is a valid and binding obligation on the part of Northwest; and the execution and delivery by Northwest of this Agreement, the Bank Credit Agreement (and the pledge agreement provided for therein) and the Note Purchase Agreements (and the pledge agreement provided for therein) and the performance of its obligations hereunder and thereunder do not conflict with or constitute any breach of any agreement, of which such counsel has knowledge, to which Northwest or any affiliate thereof is a party or is otherwise bound;

(c) The 1979 Notes delivered on the Closing Date to Schenley are validly issued and the valid and binding obligations of Northwest;

(d) Such counsel has no knowledge of any action, suit, proceeding or claim pending or threatened which seeks to prevent the consummation of any transaction contemplated hereunder; and

(e) Nothing has come to the knowledge of such counsel which would indicate that Northwest had breached any of its warranties hereunder or any obligation to be performed by it hereunder on or prior to the Closing Date, except as may be otherwise stated in such opinion.

In rendering such opinion such counsel may rely as to factual matters upon information, as to which it has no knowledge to the contrary, set forth in a certificate of an officer of Northwest, and may also rely with respect to any legal matter upon any opinion of other counsel satisfactory to such counsel. Nothing in this Section shall require such counsel to render any opinion as to the effect, if any, of, and any opinion rendered pursuant to this Section may be subject to, any consent, approval or authorization which Buckingham or any affiliate thereof may be required to obtain, or any action which Buckingham or any affiliate thereof may be required to take, in order to continue in effect or obtain on and after the Closing Date any license or permit; provided, however, that this sentence shall not apply to any opinion as to the authorization, execution, delivery, validity or binding effect of the Bank Credit Agreement (and the pledge provided for therein), the Note Purchase Agreements (and the pledge provided for therein) or the 1979 Notes.

**7.06. Approval of Counsel for Schenley.** The legality of all matters in connection with the carrying out and performance of all warranties and other obligations of Northwest under this Agreement and the Note Purchase Agreements shall have been approved by Messrs. Fried, Frank, Harris, Shriver & Jacobson, counsel for Schenley, whose approval shall not be unreasonably withheld.

**8. Agreements Applicable in Event of Consummation on Closing Date.** The obligations under Sections 8.01 through 8.06 shall be and become effective only if the sale of shares of Common Stock of Buckingham contemplated hereunder shall be consummated on the Closing Date.

**8.01. Net Worth of Buckingham.** Buckingham's Net Worth shall mean the excess of its assets over its liabilities (including all reserves, whether of a general or specific nature), determined in accordance with generally accepted principles of accounting applied on a basis consistent with those reflected in the financial statements of Buckingham as of December 31, 1970 referred to in Section 3.06; provided, however, that no liability shall be recorded in the determination of Buckingham's Net Worth in respect of any debt, obligation, liability, fine or penalty arising out of any claim by any present or former distributor (the "first distributor") of Buckingham that Buckingham has breached, solely by reason of appointing a second distributor in the territory serviced by such first distributor, the terms of any written or oral agreement granting to such first distributor an exclusive territory, unless either (a) if such appointment by Buckingham of a second distributor shall be made after the Closing Date, a ruling of a court of competent jurisdiction, from which no appeal may be taken or as to which the time to appeal has expired, shall have

determined that (i) Buckingham has given due and reasonable notice under applicable law of the appointment of such second distributor in the territory in which such first distributor claims exclusive rights or of any other termination of the exclusiveness of such first distributor's distributorship agreement, and (ii) the agreement which granted to such first distributor an exclusive territory was made on or after January 1, 1969 and prior to the Closing Date, or (b) such claim arises by reason of the fact that Buckingham committed the breach by initially appointing, on or after January 1, 1969 and prior to the Closing Date, such second distributor in the territory in which such first distributor claims exclusive rights.

As promptly as practicable after the Closing Date, Schenley shall, at its expense, cause to be delivered to Northwest, financial statements of Buckingham as of April 30, 1971 and for the four month period ending April 30, 1971, and a Statement of Buckingham's Net Worth on April 30, 1971, together with an opinion of Haskins & Sells that such financial statements present fairly the financial position of Buckingham at April 30, 1971 and the results of its operations for the four month period ending April 30, 1971 in conformity with generally accepted accounting principles applied on a consistent basis (except to the extent, if any, that the same may be modified for the purposes of this Section by a separate letter agreement between Schenley and Northwest) and that such Statement of Buckingham's Net Worth fairly reflects Buckingham's Net Worth on April 30, 1971, determined in accordance with the provisions of this Section. All working papers of Haskins & Sells relevant thereto shall be made available to Arthur Andersen & Co. Such Statement shall be conclusive for the purposes of this Section, except to the extent, if any, that Arthur Andersen & Co. shall in writing, delivered to Schenley within 20 days after the delivery of such Statement to Northwest, take exception, in whole or in part, to any item included therein or omitted therefrom, specifying in detail, insofar as feasible, the nature and extent of such exception. In the event any such exception shall be so taken by Arthur Andersen & Co., it and Haskins & Sells shall seek to agree upon the proper treatment of the item or items subject to such exception, and failing such agreement as to any such item or items within 40 days after the delivery of such Statement to Northwest, shall submit to Price, Waterhouse & Co., for determination by the latter, the question of the proper treatment of such item or items in determining Buckingham's Net Worth on April 30, 1971, in accordance with the provisions of this Section. All working papers of Haskins & Sells and of Arthur Andersen & Co. relevant to the item or items submitted to Price, Waterhouse & Co. for determination shall be made available to it and all charges of Price, Waterhouse & Co. shall be borne equally by Schenley and Northwest. Any agreement by Haskins & Sells and Arthur Andersen & Co. as to the proper treatment of any item to which Arthur Andersen & Co. shall have taken exception as above provided, and any determination by Price, Waterhouse & Co. as to the proper treatment of any such item submitted to it for determination, shall be conclusive for the purposes of this Section.

If and whenever it shall be determined that Buckingham's Net Worth on April 30, 1971, determined in accordance with the provisions of this Section, shall be less than $15,000,000, Schenley shall immediately pay in cash to Northwest the amount of such deficiency, and any such payment shall be made from time to time whenever and to the extent that a deficiency is determined to exist, notwithstanding that, at the time, determination of the proper treatment of certain unresolved items might increase the amount of such deficiency. If and whenever it shall be determined that Buckingham's Net Worth on April 30, 1971, determined in accordance with the provisions of this Section, shall be more than $15,000,000, Northwest shall immediately pay in cash to Schenley the amount of such excess, and any such payment shall be made from time to time whenever and to the extent that an excess is determined to exist, notwithstanding that, at the time, determination of the proper treatment of certain unresolved items might increase the amount of such excess.

The provisions of this Section shall in no manner relieve Schenley from any liability or obligation under or with respect to any warranty or agreement on its part under other provisions of this Agreement (notwithstanding that such liability or obligation relates to any item which is not reflected in Buckingham's Net Worth on April 30, 1971, determined in accordance with the provisions of this Section), except to the extent, if any, that such liability or obligation is deducted or otherwise reserved against as a liability in determining Buckingham's Net Worth on April 30, 1971 in accordance with the provisions of this Section.

**8.02 Reimbursement for Claims and Liabilities.** Schenley agrees to reimburse Northwest for, by payment to Northwest in cash in the amount of, all debts, obligations, liabilities, claims, fines and penalties of every kind, nature and description (whether public or private, whether arising by or as a result of agreement, action or omission to act, law or violation of law, or otherwise, whether known or unknown, whether or not disclosed in any Schedule referred to in this Agreement and whether accrued or contingent) of or against Buckingham, existing on April 30, 1971, or arising or asserted as a result or on account of any occurrence or nonoccurrence on the part of Schenley, Buckingham, any other affiliate of Schenley, or any agent of any thereof prior to April 30, 1971 (other than obligations, liabilities or commitments of Buckingham relating to the purchase, sale, use, furnishing or receipt of property or services after April 30, 1971 pursuant to any commitment of Buckingham existing on April 30, 1971, the existence of which obligations, liabilities or commitment does not involve breach of any warranty or agreement of Schenley hereunder), but only to the extent the same are not deducted or otherwise reserved against in the full amount thereof as a liability in determining Buckingham's Net Worth for the purposes of Section 8.01, except that there shall be deducted from any amount otherwise payable by Schenley on account of any item pursuant to its foregoing reimbursement obligation, the sum of (a) the amount of any insurance proceeds with respect to such item which shall be received after April 30, 1971 by Buckingham, but only to the extent such insurance proceeds were not taken into account in determining such Net Worth, and (b) the amount of any income tax benefit received or to be received (the amount of any such benefit to be received to be calculated on a discount basis at the then prevailing prime commercial bank rate) by Buckingham or Northwest or any affiliate of Northwest as a result of such item, less the amount of any income tax payable by Buckingham or Northwest or any affiliate of Northwest with respect to reimbursement received from Schenley on account of such item pursuant to this Section.

Notwithstanding the provisions of this Section or Section 3, Northwest shall have no right to reimbursement under this Section, and no claim under Section 3, in respect of any debt, obligation, liability, fine or penalty arising out of any claim by any present or former distributor (the "first distributor") of Buckingham that Buckingham has breached, solely by reason of appointing a second distributor in the territory serviced by such first distributor, the terms of any written or oral agreement granting to such first distributor an exclusive territory, unless either (a) if such appointment by Buckingham of a second distributor shall be made after the Closing Date, a ruling of a court of competent jurisdiction, from which no appeal may be taken or as to which the time to appeal has expired, shall have determined that (i) Buckingham has given due and reasonable notice under applicable law of the appointment of such second distributor in the territory in which such first distributor claims exclusive rights or of any other termination of the exclusiveness of such first distributor's distributorship agreement, and (ii) the agreement which granted to such first distributor an exclusive territory was made on or after January 1, 1969 and prior to the Closing Date, or (b) such claim arises by reason of the fact that Buckingham committed the breach by initially appointing, on or after January 1, 1969 and prior to the Closing Date, such second distributor in the territory in which such first distributor claims exclusive rights.

In case any claim is made or any suit or action is commenced against Buckingham concerning any matter in respect of which reimbursement may be sought by Northwest pursuant to this Section, Northwest will cause Buckingham to give prompt notice thereof to Schenley and, upon request of Schenley, will cause Buckingham to cooperate reasonably in the defense thereof, including affording to Schenley and its representatives the right of access during normal business hours to pertinent books and records of Buckingham for purposes of inspection and making copies and making personnel then employed by Buckingham reasonably available for purposes of trial preparation and testimony. Any other failure of Northwest or Buckingham to defend or participate in the defense of any such claim, suit or action, or to cause the same to be done, shall not relieve Schenley of any of its obligations under this Section.

In case of any such claim, suit or action, Schenley may, by notice to Northwest, elect to assume the defense thereof with counsel satisfactory to Northwest. After such election to assume the defense of any such claim, suit or action, Schenley shall not be liable for any legal or other expenses subsequently incurred by Northwest or Buckingham in connection with the defense thereof, other than reasonable

expenses incurred by Buckingham in cooperating, at the request of Schenley, in such defense. Except as otherwise provided in the preceding sentence, Schenley shall reimburse Northwest for any legal or other expenses incurred by Northwest or Buckingham in the defense of any such claim, suit or action.

Buckingham may at any time notify Schenley of Buckingham's intention to pay, settle or compromise any such claim, suit or action, the defense of which Schenley shall not have previously elected to assume, and may make such payment, settlement or compromise unless Schenley shall notify Buckingham, within 10 business days after such notice from Buckingham, of Schenley's election to assume the defense of such claim, suit or action. Any such payment, settlement or compromise so made by Buckingham, or any final judgment or decree entered with respect to any claim, suit or action, the defense of which Schenley has not elected to assume, shall be deemed to have been consented to by, and shall be binding upon, Schenley as fully as if it had assumed the defense thereof and a final judgment or decree had been entered with respect to such claim, suit or action for the amount of such payment, settlement, compromise, judgment or decree. Except as above provided in this paragraph, neither Northwest nor Buckingham may pay, settle, or compromise, or take any action which may materially prejudice the defense against, any claim, suit or action concerning any matter in respect of which reimbursement is sought by Northwest pursuant to this Section.

If any claim, suit or action by any third party against Buckingham involves any matter which might be subject to the reimbursement obligations of Schenley under this Section, then to the extent such claim, suit or action seeks the recovery of money or money damages, the rights and obligations of Northwest, Buckingham and Schenley with respect thereto shall be governed by the provisions of this Section, notwithstanding that such claim, suit or action involves or may involve breach of any warranty or agreement of Schenley under Section 3. To the extent that any claim, suit or action by any third party against Buckingham involves breach of any warranty or agreement of Schenley under Section 3 and seeks relief other than or in addition to the recovery of money or money damages, Northwest will cause Buckingham to give prompt notice thereof to Schenley and, upon request of Schenley, will permit Schenley at its expense to co-operate reasonably in the defense of such claim, suit or action, but insofar as such claim, suit or action seeks relief other than or in addition to the recovery of money or money damages, the rights and remedies of Northwest and Buckingham with respect thereto shall not be limited by the provisions of this Section.

If any payment shall be required to be made by Schenley pursuant to the provisions of this Section, such payment shall be made to Northwest.

The term "Buckingham", as used in this Section, shall include Buckingham Distributors, Inc.

**8.03. Guaranty by Schenley as to Depletions.** The following terms when used in this Section shall have the meanings set forth below:

The term "Buckingham Products" shall mean Cutty Sark, St. James's 12-Year Old Scotch Whisky, and Berry Bros. & Rudd Limited gin.

The term "Cutty Sark" shall mean Cutty Sark Scotch whisky.

The term "case", when used with reference to cases of Buckingham Products, shall mean either a case of three full gallons, six one-half gallons, twelve full quarts, twelve four-fifths of a quart, 24 one-tenths of a gallon, 48 one-halves of a pint, 192 one-tenths of a pint (all of the foregoing being U.S. measurements), or with respect to any other size, the closest equivalent to the foregoing.

The term "Depletions" shall mean (a) all sales of Buckingham Products by those distributors of Buckingham or any affiliate thereof who are located in a non-control State of the United States (other than Kansas or Oklahoma) or in the District of Columbia or Puerto Rico, plus (b) all sales or deliveries of Buckingham Products to retail establishments in control States of the United States by those State liquor authorities which at the time regularly publish the amounts of such sales or deliveries, and plus (c) all sales of Buckingham Products made by Buckingham or any affiliate thereof to purchasers other than any distributor whose sales are covered by clause (a) or any State liquor

authority whose sales or deliveries are covered by clause (b), but shall not include any sales of Buckingham Products made by Buckingham or any affiliate thereof to any purchaser outside the United States or Puerto Rico other than sales made to or for U.S. naval stores, post exchanges or governmental installations.

The term "Guaranty Period" shall mean the period commencing January 1, 1971 and ending December 31, 1975, or ending December 31, 1976 if the extension option referred to below in this Section has been exercised once, or ending December 31, 1977 if such extension option has been exercised twice.

The term "Guaranty Year" shall mean each calendar year in the Guaranty Period, except any calendar year or years eliminated and not reinstated, in accordance with the provisions of this Section, as a Guaranty Year, provided however that there shall be five Guaranty Years in the Guaranty Period.

Schenley agrees that the average annual number of cases of Depletions during the five Guaranty Years in the Guaranty Period will be at least 2,150,000 cases. Accordingly, in the event the aggregate number of cases of Depletions for the five Guaranty Years in the Guaranty Period shall be less than 10,750,000 cases, Schenley shall pay to Northwest, within 20 days after the number of cases of such deficiency is conclusively determined as hereinafter provided, an amount in cash equal to the Base Dollar Amount (namely, the dollar amount which is designated in a writing, executed and delivered by Schenley and Northwest contemporaneously with the execution and delivery of this Agreement, as the Base Dollar Amount for the purposes of this Section) multiplied by the number of cases of such deficiency.

Notwithstanding the provisions of the immediately preceding paragraph, in the event that in any calendar year during the Guaranty Period Buckingham shall, by reason of any action or failure to act after the Closing Date on the part of Northwest, Buckingham or any affiliate of either thereof, be prevented for a period of more than 30 consecutive days or [illegible] days in the aggregate from engaging in the sale or distribution of Cutty Sark in any State of the United States, then if the number of cases of Depletions in such State for such year shall be less than the number of cases of Depletions in such State for the last preceding calendar year in which Buckingham was not so prevented for any such period from engaging in the sale or distribution of Cutty Sark, the number of cases of Depletions in such State in such year shall be deemed to be the number of cases of Depletions in such State for such last preceding calendar year. The provisions of this paragraph shall not apply if the inability of Buckingham to engage in the sale or distribution of Cutty Sark in any State is caused solely by either Schenley's ownership of any 9½% Notes or any interest of Schenley in any Note Purchase Agreement (or the pledge agreement provided therein) or the ownership by Schenley or any affiliate thereof of any distributorship for products of Buckingham.

As promptly as practicable after the close of each calendar year during the Guaranty Period, Northwest shall, at its expense, deliver to Schenley a Statement as to the aggregate number of cases of Depletions for each calendar year in the Guaranty Period ending with such year. Such Statement delivered after the close of the last calendar year in the Guaranty Period shall also set forth the amount, if any, due and owing by Schenley to Northwest pursuant to the provisions of this Section. Each such Statement shall be accompanied by an opinion of Arthur Andersen & Co. that such Statement properly reflects the matters stated therein. Haskins & Sells may, at the expense of Schenley, participate, to the extent it deems desirable, in all activities carried on by Arthur Andersen & Co. in connection with the latter's examination for the purposes of such Statement and all working papers of Arthur Andersen & Co. relevant thereto shall be made available to Haskins & Sells. In the event Haskins & Sells shall advise Buckingham that Haskins & Sells wishes to examine records as to sales of Buckingham Products by any distributor of Buckingham or any affiliate thereof, Northwest will use its best efforts to cause such records to be made available for such examination. Each Statement (accompanied by such opinion of Arthur Andersen & Co.) so delivered by Northwest shall be conclusive, as to the matters set forth therein, for the purposes of this Section, except to the extent, if any, that Haskins & Sells shall in writing, delivered to Northwest



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within 20 days after the delivery of such Statement to Schenley, take exception, in whole or in part, to any item included therein or omitted therefrom, specifying in detail, insofar as feasible, the nature and extent of such exception. In the event any such exception shall be taken by Haskins & Sells, it and Arthur Andersen & Co. shall seek to agree upon the proper treatment of the item or items subject to such exception, and failing such agreement as to any such item or items within 40 days after the delivery of such Statement to Schenley, shall submit to Price, Waterhouse & Co. for determination by the latter of the proper treatment of such item or items for the purposes of this Section. All working papers of Arthur Andersen & Co. and Haskins & Sells relevant to the item or items submitted to Price, Waterhouse & Co. for determination shall be made available to it and all charges of Price, Waterhouse & Co. shall be borne equally by Northwest and Schenley. Any agreement by Arthur Andersen & Co. and Haskins & Sells as to any item to which Haskins & Sells shall have taken exception as above provided, and any determination by Price, Waterhouse & Co. as to any such item submitted to it for determination, shall be conclusive for the purposes of this Section.

No accountant shall disclose to Schenley or any affiliate thereof any information obtained by such accountant in connection with its examination for the purposes of any Statement provided for in this Section as to the amount of sales or deliveries by any one or more particular distributors or State liquor authorities, or to any one or more particular purchasers, or in any one or more particular jurisdictions. Nothing herein shall prevent the disclosure of such information to counsel for Schenley; however, such counsel shall not disclose any such information so acquired to Schenley or any affiliate thereof.

If any of the events specified in this paragraph shall occur after the Closing Date and during the Guaranty Period, Schenley's obligations under this Section shall terminate and this Section shall be of no force and effect:

(a) any action or failure to act on the part of Northwest, Buckingham or any affiliate of either shall occur after the Closing Date, whether by amendment or termination of, or breach of any of Buckingham's obligations under, the Sales Agency Agreement (including any amendment thereof) or the Tri-Partite Agreement (including any amendment thereof), which results in a reduction in or elimination of the supply to Buckingham of Cutty Sark which would be otherwise available to it in the absence of such action or failure to act;

(b) Buckingham or any affiliate thereof shall engage in the distribution of any brand of Scotch whisky other than Cutty Sark and St. James's 12-Year Old Scotch Whisky and other than not in excess of 500 cases of twelve full quarts (or the equivalent) in any calendar year of any other brand;

(c) Buckingham's license under the Federal Alcohol Administration Act to import Scotch whisky shall not be renewed or shall be revoked or suspended by reason of any action or failure to act on the part of Northwest or Buckingham after the Closing Date;

(d) Buckingham or any affiliate thereof shall increase the price of Cutty Sark so as to place Cutty Sark in the premium aged Scotch whisky category in the United States in which St. James's 12-Year Old Scotch Whisky is being sold by Buckingham at the date of this Agreement; or

(e) Northwest shall cease to be the beneficial owner, directly or indirectly, of all of the outstanding shares of capital stock of Buckingham otherwise than as a result of the enforcement of any security interest under the pledge agreement provided for pursuant to the Bank Credit Agreement.

Northwest agrees that, after the Closing Date and during the Guaranty Period,

(a) it will use its best efforts to cause Buckingham or an affiliate thereof to keep in effect, or obtain and keep in effect, all material licenses, permits and approvals from governmental authorities necessary in order to permit the conduct by Buckingham and its affiliates of the business of the sale and distribution of Cutty Sark of substantially the nature presently conducted by Buckingham; and



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(b) it will cause Buckingham or an affiliate thereof to require (but only if permitted to do so by applicable law) any distributor of any Buckingham Products who shall be appointed by Buckingham or such affiliate or whose distributorship for any Buckingham Products shall be extended by Buckingham or such affiliate during such period to agree to make available to Buckingham or such affiliate, upon request, information as to the quantity of sales of Buckingham Products by such distributor during the Guaranty Period.

Notwithstanding the foregoing provisions of this Section, and subject to the provisions of the next succeeding paragraph of this Section, in the event that in any calendar year (other than the last, after giving effect to the exercise of any extension option hereinafter referred to) during the Guaranty Period any of the events hereafter listed in this paragraph shall be operative for more than 30 consecutive days or 60 days in the aggregate during such year, Schenley, at its option (the "extension option"), exercisable by notice to Northwest, at any time during such year or thereafter but prior to the 20th day after the Depletions for such year have been conclusively determined in accordance with the foregoing provisions of this Section, may elect to eliminate such year as a Guaranty Year and substitute therefor, as a Guaranty Year, the year ending December 31, 1976, or if an extension option has been previously exercised, the year ending December 31, 1977. The extension option shall be exercisable no more than twice. The following events, so long as they affect in any substantial manner the manufacture of Cutty Sark wherever Cutty Sark is then being manufactured, or the transportation of Cutty Sark from its place or places of manufacture to the United States, or its transportation to, importation into, or sale or distribution within, the United States generally, or its transportation to, or sale or distribution within, any one of the states of California, Illinois, New York or Texas, shall permit Schenley to exercise the option provided for in this paragraph: war, whether declared or undeclared; revolution or acts of public enemies; riot or civil commotion; strikes, lockouts and work stoppages (wherever occurring); acts of God; any casualty; and acts or restraints of governmental authorities other than Sunday or holiday closing laws.

Within 20 days after the Depletions for the last calendar year in the Guaranty Period have been conclusively determined, Schenley may elect, by written notice to Northwest, (i) to reinstate, as a Guaranty Year, any year or years previously eliminated as a Guaranty Year pursuant to the exercise of the extension option, and (ii) to eliminate as a Guaranty Year any year or years theretofore substituted as a Guaranty Year pursuant to the exercise of the extension option, provided that an equal number of years is so reinstated and eliminated by any election under this paragraph.

8.04. Buckingham Tax Allocation Agreement. Schenley agrees that any tax allocation agreement which prior to the Closing Date may have been entered [illegible] Buckingham with any affiliate thereof will be made inapplicable with respect to any period after the Closing Date. Northwest agrees that it will cause Buckingham to pay to Schenley in cash, at least 5 days prior to the date when the relevant taxes are being paid, all amounts accrued as at the Closing Date by Buckingham to Schenley under any such tax allocation agreement, but only to the extent such amounts are reflected as a liability in determining Buckingham's Net Worth on April 30, 1971 as provided in Section 8.01 or are attributable to Buckingham's taxable income for the period after April 30, 1971 to the Closing Date. Northwest also agrees to cause Buckingham to execute any and all returns and documents (including specifically IRS Form 1122, to be delivered to Schenley at the Closing Date) necessary or desirable, in Schenley's opinion, to enable Buckingham to be included for any and all periods prior to the Closing Date in any Federal Income Tax return or any State or local tax return filed for any such period in respect of any consolidated group of which Schenley is a member; provided, however, that Buckingham shall suffer no liability or expense as a result thereof which is not (a) reflected as a liability in determining Buckingham's Net Worth on April 30, 1971 as provided in Section 8.01, (b) attributable to Buckingham's taxable income for the period after April 30, 1971 to the Closing Date, or (c) covered by Schenley's reimbursement obligation under Section 8.02, and Schenley agrees that, upon the request of Northwest, Schenley will join, and cause any other member of such group reasonably designated by Northwest to join, with Buckingham in any appli-

cation Buckingham may make for an appropriate consent from the Internal Revenue Service limiting Buckingham's liability under any such Federal Income Tax return to the amount of taxes payable by reason of the taxable income of Buckingham up to the Closing Date.

8.05. **Employment by Schenley of Employees of Buckingham, Etc.** Schenley agrees that, except with Northwest's prior written consent, neither Schenley nor any affiliate of Schenley will, during a period of 5 years after the Closing Date, solicit for employment any person who at the date of this Agreement is employed as an officer or employee of Buckingham or Walter J. Jahn Company, Inc. or Buckingham's principal advertising agency, while such person is so employed; provided, however, that (a) the foregoing restriction shall not apply at any time if Northwest is not then the beneficial owner, directly or indirectly, of all of the outstanding shares of capital stock of Buckingham, (b) the foregoing restriction shall not apply at any time to any person employed by Walter J. Jahn Company, Inc. if the Jahn Agreement is not then in force and effect and (c) nothing herein shall restrict Schenley from honoring its obligations under its agreement, dated November 9, 1970, with Jorgen U. Kai-Nielsen, a copy of which has been delivered to Northwest by Schenley.

8.06. **Employment by Buckingham of Employees of Schenley, Etc.** Northwest agrees that, except with Schenley's prior written consent, neither Northwest nor any affiliate of Northwest will, during a period of 5 years after the Closing Date, solicit for employment any person who at the date of this Agreement is employed as an officer or employee of Schenley or Schenley's principal advertising agencies, while such person is so employed; provided, however, that the foregoing restriction shall not apply at any time if Northwest is not then the beneficial owner, directly or indirectly, of all of the outstanding shares of capital stock of Buckingham.

9. **Miscellaneous.**

9.01. **Cooperation of Schenley in Obtaining Licenses, Etc.** Schenley agrees that it will, from time to time upon the request and at the expense of Northwest (except with respect to obtaining any approval required by reason of the Divestiture Decree), cooperate with Northwest, both before and after the Closing Date, in obtaining such licenses, permits and approvals from governmental authorities, all as Northwest may reasonably request as being necessary or desirable in connection with the conduct by Buckingham of business of substantially the nature presently conducted by it and the acquisition and ownership by Northwest of all outstanding shares of capital stock of Buckingham. Nothing contained in this Section, however, shall require Schenley to agree to any modification of the 9½% Notes or any Note Purchase Agreement (or the pledge agreement provided for therein) or to surrender or cause any affiliate of Schenley to surrender any distributorship of products of Buckingham or any license, permit or governmental approval necessary or desirable in connection with the conduct by Schenley or any affiliate thereof of business of substantially the nature presently conducted by Schenley and its affiliates.

9.02. **Access of Schenley to Books and Records of Buckingham.** In the event the sale of shares of Common Stock of Buckingham contemplated hereunder shall be consummated on the Closing Date, thereafter Northwest will cause Buckingham to give to Schenley, any affiliate thereof and its counsel, accountants and other representatives full access, during normal business hours, to all books, contracts, commitments and records of Buckingham, to the extent that such access may be reasonably required to facilitate the preparation by Schenley or any affiliate thereof of any tax returns on its part or on the part of any affiliated group of which Buckingham may have been a member, the disposition of any claim for which Schenley is obligated to reimburse Northwest hereunder and the conduct by Schenley or any affiliate thereof of any litigation by or against any third party, in connection with any governmental investigation or for the purpose of Section 8.02.

9.03. **Expenses.** Schenley and Northwest each agrees to pay one-half of (a) the fees of Republic Funding Corporation in connection with the sale of 1986 Notes provided for under the Note Purchase Agreement, (b) the amount payable by Northwest pursuant to the Note Purchase Agreements on account of fees and disbursements of special counsel for the purchasers of 1986 Notes, and (c) the printing expenses

for the printing of this Agreement and the Note Purchase Agreements. Whether or not the transactions contemplated by this Agreement are consummated, each of Schenley and Northwest shall pay the fees and expenses of its counsel, accountants and other experts and its aforesaid proportion of any fees and expenses referred to in clauses (b) and (c) of the preceding sentence.

**9.04. Finders.** Schenley warrants unto Northwest that Schenley has not engaged or authorized the services of any broker, finder or other intermediary with respect to the transactions contemplated hereby under circumstances where any amount (other than the fees referred to in clause (a) of Section 9.03) could be recoverable by such broker, finder or other intermediary against Northwest or Buckingham.

Northwest warrants unto Schenley that it has not engaged or authorized the services of any broker, finder or other intermediary with respect to the transactions contemplated hereby under circumstances where any amount (other than the fees referred to in clause (a) of Section 9.03) might be recoverable by such broker, finder or other intermediary against Schenley or Buckingham.

**9.05. Confidential Treatment.** Northwest agrees that in the event the sale of shares of Common Stock of Buckingham contemplated hereunder shall not be consummated on the Closing Date, it will keep confidential and not use for its own benefit any information in the nature of trade secrets or any other confidential information relating to the business and methods of Buckingham which Northwest has acquired or learned or may acquire or learn in its investigation of Buckingham. The obligations of Northwest under this Section shall survive any termination of this Agreement.

**9.06. Substitution of Accountants.** If at any time Haskins & Sells shall not be acting as the independent public accountants of Schenley, then Schenley, by notice to Northwest, may thereafter at any time substitute, in lieu of Haskins & Sells for the purposes of any provision of this Agreement (including the last sentence of this Section), the firm then acting as independent public accountants for Schenley. If at any time Arthur Andersen & Co. shall not be acting as the independent public accountants of Northwest, then Northwest by notice to Schenley, may thereafter at any time substitute, in lieu of Arthur Andersen & Co. for the purposes of any provision of this Agreement (including the last sentence of this Section), the firm then acting as independent public accountants for Northwest. If the firm of Price, Waterhouse & Co. shall be so substituted by either Schenley or Northwest, or shall at any time be unwilling to act hereunder, then such firm of independent public accountants as may be agreed upon between Haskins & Sells and Arthur Andersen & Co. shall be substituted for Price, Waterhouse & Co. for the purposes of any provision hereof relating to such firm.

**9.07. Non Off-set by Northwest of Non-matured Claims.** Northwest agrees that it shall not be entitled to claim as a defense against or off-set to any of its obligations under the 9½% Notes any claim Northwest may have against Schenley (a) under Section 8.02 unless such claim shall have been finally determined as binding upon Schenley in accordance with the provisions of such Section, (b) under Section 8.03 unless such claim shall have been conclusively determined for the purposes of such Section, or (c) for breach of warranty by Schenley as to any matter other than a matter covered by Section 3.04, 3.05, 3.19, 3.20 or 8.02, unless such claim shall have been reduced to a judgment of a court of competent jurisdiction as to which either the time for appeal has expired or no appeal may be taken.

**9.08. Survival of Warranties, Etc.** All warranties and agreements of Schenley under Section 3 (except as to matters covered by Sections 3.04, 3.05, 3.19 and 3.20) and under Section 5, and all warranties and agreements of Northwest as to matters covered by Sections 4.02 and 4.03, shall terminate two years after the Closing Date, except as to any specific matter which is the subject of any claim asserted by either Schenley or Northwest against the other by notice given within two years after the Closing Date; provided, however, the foregoing shall in no manner limit or terminate any obligation of Schenley under Section 8.02, whether or not relating to any matter which involves or may involve breach of any warranty or agreement of Schenley under Section 3 or 5. Subject to the provisions of the immediately preceding sentence, all warranties hereunder of Schenley or Northwest and all agreements hereunder of Schenley or

Northwest which shall not have been fully performed at or prior to the Closing Date shall survive the Closing Date and the consummation on the Closing Date of the transactions herein provided to be consummated on such Date, notwithstanding any investigation which may have been made by or on behalf of Schenley or Northwest. All warranties of Northwest under the Note Purchase Agreements shall continue in effect thereunder, without regard to the provisions of this Section.

**9.09. Notices.** Any notice hereunder or pursuant hereto to Schenley shall be given in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed to:

Schenley Industries, Inc.
Attention: Isidore A. Becker, Chairman
888 Seventh Ave.
New York, New York 10019

with a copy addressed to:

Leslie A. Jacobson, Esq.
Fried, Frank, Harris, Shriver & Jacobson
120 Broadway
New York, New York 10005

or to such other address as it may designate by notice to Northwest.

Any notice hereunder or pursuant hereto to Northwest shall be given in writing and delivered personally or sent by registered or certified mail, postage prepaid, addressed to:

Northwest Industries, Inc.
Attention: Richard J. Hill, Secretary
400 West Madison Street
Chicago, Illinois 60606

or to such other address as it may designate by notice to Schenley.

When sent by mail as above provided, any notice will be deemed given when deposited in the U. S. mails.

**9.10. Remedies Cumulative.** No remedy hereunder or with respect hereto which may be available to any party hereto is intended to be exclusive of any other remedy available to such party, and every such remedy shall be cumulative and in addition to every other remedy available to such party.

**9.11. Waivers, etc.** Any waiver by any party hereto of any term or condition hereunder shall be effective only if and to the extent specified in writing by such party.

**9.12. Separability.** Whenever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be invalid only to that extent without invalidating the remainder of such provision or the remaining provisions of this Agreement.

**9.13. No Further Representations.** It is expressly agreed between the parties hereto that no representations or warranties other than those expressly stated herein are made, or intended to be made, in this Agreement.

**9.14. Headings.** Headings of Sections of this Agreement have been inserted for convenience only and are not to be construed as parts of this Agreement.

**9.15. Successors and Assigns.** (a) Neither Schenley nor Northwest may assign any or all of its rights hereunder (i) except in connection with any transfer of all or substantially all of its assets or any merger with or into, or any consolidation with, any other corporation, (ii) except, subject to the provisions of subparagraph (b) of this Section, for any assignment by Northwest of its rights under Section 8.03 as security for its obligations under the Bank Credit Agreement (and the pledge agreement provided for therein) and its promissory notes issued pursuant thereto or under the Note Purchase Agreements (and the pledge agreement provided for therein) and the 9½% Notes, and (iii) except for any transfer by Schenley of all or any part of the 9½% Notes. Subject to the foregoing provisions of this Section, this Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto. In the event of any assignment by Northwest of any of its rights under Section 8.03 as security for its obligations under the Bank Credit Agreement (and the pledge agreement provided for therein) and its promissory notes issued pursuant thereto, Schenley agrees that it will not assert as against the assignee, as a defense against or offset to Schenley's obligations under Section 8.03, any amount which may be owing by Northwest under the 9½% Notes.

(b) No assignment by Northwest pursuant to clause (ii) of subparagraph (a) of this Section shall be effective as to any purchaser of the Pledged Stock (as defined in the pledge agreement provided for in the Bank Credit Agreement or Note Purchase Agreement) upon any sale under any such pledge agreement, other than any sale of the Pledged Stock in a public offering under a Registration Statement filed under the Securities Act of 1933, unless such purchaser shall execute an agreement with Schenley, in form and substance satisfactory to Schenley's counsel, under which agreement:

(i) each reference to Northwest in Sections 8.03, 8.06 and 9.02 shall, from and after the transfer of title to the Pledged Stock to such purchaser, be deemed to refer to and mean such purchaser; and

(ii) such purchaser shall expressly assume and agree to perform and comply with, from and after such transfer of title, each and every obligation and condition to be performed and complied with by Northwest under Sections 8.03, 8.06 and 9.02.

**9.16. Entire Agreement.** This Agreement, together with all financial statements, schedules and letters referred to herein, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

**9.17. Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute together but one and the same instrument.

In Witness Whereof, Schenley Industries, Inc. and Northwest Industries, Inc. has each caused this Agreement to be executed in its corporate name and attested under its corporate seal by its corporate officers thereunto duly authorized, all as of the day and year first above written.

Schenley Industries, Inc.

[Corporate Seal]

Attest:

Leslie A. Jacobson

*Ass't. Secretary*

By D. A. Chernow

*Executive Vice President*

Northwest Industries, Inc.

[Corporate Seal]

Attest:

R. J. Hill

*Secretary*

By Ben W. Heineman

*President*

A1415

EX. 114

Plaintiff

114 ID

# SECURITIES AND EXCHAN

Washington, D. C. 2054

## FORM 10-K

### ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 1971** **Commission file number 1-5448**

# GLEN ALDEN CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | 13-2588971<br>(I.R.S. Employer Identification No.) |
| 888 Seventh Avenue, New York, New York<br>(Address of principal executive offices) | 10019<br>(Zip Code) |

Registrant's telephone number, including area code (212) 957-8700

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $1 per share | New York Stock Exchange |
| $2.25 Senior Cumulative Convertible Preferred Stock | New York Stock Exchange |
| Class B Senior Cumulative Convertible ($3) Preferred Stock | New York Stock Exchange |
| $3.15 Cumulative Convertible Preferred Stock | New York Stock Exchange |
| 7½% Sinking Fund Subordinated Debentures, due May 15, 1985 | New York Stock Exchange |
| 6% Sinking Fund Subordinated Debentures, due August 15, 1988 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant has filed all annual, quarterly and other reports required to be filed with the Commission within the past 90 days and in addition has filed the most recent annual report required to be filed. Yes X . No _____.

A1416

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### ASSETS

| | (In Thousands) December 31, 1970 | December 31, 1971 |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash, including certificates of deposit ($9,428,000 and $33,749,000) | $ 94,660 | $ 101,046 |
| Marketable securities, at cost which approximates market | 14,133 | 16,435 |
| Notes and accounts receivable, less allowances ($5,604,000 and $5,596,000) (Schedule XII) | 209,074 | 195,186 |
| Inventories, at the lower of cost or market (Note B) | 428,729 | 405,365 |
| Other receivables, prepaid expenses, etc. (Schedule XII) | 21,230 | 27,673 |
| Total current assets | 767,826 | 745,705 |
| **INVESTMENTS AND ADVANCES:** | | |
| Long John International Ltd., at equity (Note A) | 19,573 | 20,210 |
| Other investments, etc., substantially at cost (Note E) | 3,747 | 25,807 |
| Total investments | 23,320 | 46,017 |
| **PROPERTY, PLANT AND EQUIPMENT, AT COST (Note C) (Schedules V and VI):** | | |
| Land | 30,811 | 5,622 |
| Buildings | 161,578 | 109,636 |
| Machinery, equipment, furniture and fixtures | 202,438 | 187,424 |
| Other | 19,424 | 17,014 |
| | 414,251 | 319,696 |
| Less accumulated depreciation and amortization | 228,918 | 173,668 |
| Property, plant and equipment—net | 185,333 | 146,028 |
| **OTHER ASSETS:** | | |
| Intangibles, less amortization (Note D) (Schedules VII and VIII) | 131,616 | 106,344 |
| Franchises (Note D) | 50,000 | 50,000 |
| Deferred charges and supplies (Schedule XII) | 29,400 | 23,078 |
| Total other assets | 211,016 | 179,422 |
| | $1,187,495 | $1,117,172 |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | (In Thousands) December 31, 1970 | December 31, 1971 |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Short-term debt | $ 141,115 | $ 98,723 |
| Current maturities of long-term debt, less unamortized discount (Note E) | 78,828 | 36,016 |
| Accounts payable—trade | 52,553 | 49,515 |
| Accrued liabilities: | | |
| Salaries, wages, commissions and bonuses | 9,142 | 11,098 |
| Miscellaneous taxes withheld and accrued | 23,406 | 38,044 |
| Interest | 12,374 | 11,262 |
| Other | 22,130 | 18,964 |
| Accrued Federal and foreign income taxes (Note F) | 17,119 | 14,402 |
| Dividends payable | 2,230 | 2,619 |
| Total current liabilities | 358,897 | 280,643 |
| **LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT (Note E) (Schedule IX):** | | |
| Notes payable | 196,174 | 200,718 |
| Subordinated debentures | 266,720 | 319,797 |
| Total long-term debt | 462,894 | 520,515 |
| **RESERVES AND OTHER LIABILITIES:** | | |
| Deferred income taxes (Note F) | 10,608 | 10,291 |
| Warranties | 4,450 | 4,126 |
| Pensions | 7,871 | 9,786 |
| Other (Note E) (Schedule XII) | 19,287 | 40,440 |
| Total reserves and other liabilities | 42,216 | 64,643 |
| **MINORITY INTEREST IN SUBSIDIARY COMPANIES (Note A)** | 55,791 | 6,968 |
| **STOCKHOLDERS' EQUITY (see accompanying statement):** | | |
| Preferred and preference stocks, at stated value—aggregate redemption requirements ($121,296,000 and $108,106,000) (Notes G and H) (Schedule XIII) | 12,276 | 9,182 |
| Common stock, par value $1 per share; authorized—36,000,000 shares; issued—21,407,000 and 22,422,000 shares (Notes G and H) (Schedule XIII) | 21,407 | 22,422 |
| Capital surplus | 129,932 | 128,820 |
| Retained earnings (Note E) | 128,957 | 151,936 |
| Less treasury stock, at cost | (24,875) | (67,957) |
| Stockholders' equity | 267,697 | 244,403 |
| **COMMITMENTS AND CONTINGENT LIABILITIES (Notes I, J and K)** | | |
| | $1,187,495 | $1,117,172 |

See Notes to Financial Statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

### For the Two Years Ended December 31, 1971

| | (In Thousands) 1970 | 1971 |
|---|---|---|
| **Source:** | | |
| Operations— | | |
| Income before extraordinary items | $24,598 | $ 28,239 |
| Charges (credits) not affecting current outlays: | | |
| Depreciation and amortization | 13,100 | 13,486 |
| Amortization of intangibles, debt discount and expense, etc. | 6,485 | 9,482 |
| Provision for deferred income taxes | 2,360 | 857 |
| Minority interest | 4,144 | 1,957 |
| Other | 2,194 | (2,663) |
| Total from operations before extraordinary items | 52,881 | 51,358 |
| Extraordinary (charges) credits | (2,267) | 3,603 |
| Total from operations | 50,614 | 54,961 |
| Issuance of long-term debt | 1,647 | 147,856 |
| Properties and businesses sold—net (1971 exclusive of working capital of $14,186,000) | 5,482 | 120,461 |
| Issuance of stock upon conversions and exercise of stock options | 197 | 2,692 |
| Increase (decrease) in other liabilities, etc.—net (Note E-(b)) | (5,150) | 21,153 |
| | 52,790 | 347,123 |
| **Disposition:** | | |
| Reduction and reclassification of long-term debt | 31,949 | 93,989 |
| Additions to property, plant and equipment | 18,515 | 22,554 |
| Cash dividends | 3,693 | 5,270 |
| Acquisition of minority interest in Schenley | — | 98,024 |
| Acquisition of common treasury shares | 165 | 45,983 |
| Redemptions and conversions of preferred stock | 474 | 2,015 |
| Increase (decrease) in other investments, etc.—net (Note E-(b)) | (389) | 22,060 |
| Increase (decrease) in other—net | (734) | 1,095 |
| | 53,673 | 290,990 |
| Increase (Decrease) in Working Capital | $ (883) | $ 56,133 |
| Changes in Components of Working Capital: | | |
| Increases (decreases) in current assets: | | |
| Cash and marketable securities | $12,720 | $ 8,688 |
| Notes and accounts receivable | (3,348) | (13,888) |
| Inventories | (9,599) | (23,364) |
| Other receivables, prepaid expenses, etc. | 3,477 | 6,443 |
| | 3,250 | (22,121) |
| Decreases (increases) in current liabilities: | | |
| Short term debt | 13,669 | 42,392 |
| Long term debt due currently | (2,714) | 42,812 |
| Accounts payable and accrued liabilities | (7,872) | (9,278) |
| Federal and foreign income taxes | (7,237) | 2,717 |
| Dividends | 21 | (389) |
| | (4,133) | 78,254 |
| Increase (Decrease) in Working Capital | $ (883) | $ 56,133 |

See Notes to Financial Statements.

# GLEN ALDEN CORPORATION AND SUBSIDIARIES

## NOTES TO FINANCIAL STATEMENTS

### A. Principles of Consolidation

See Note 1 of Notes to Statement of Consolidated Income.

Included in the consolidated balance sheet are the following foreign net assets, principally located in Canada and Europe:

| | (In Thousands) December 31, 1970 | 1971 |
|---|---|---|
| Current assets | $ 79,248 | $ 88,489 |
| Property, plant, and equipment—net | 23,243 | 23,429 |
| Other assets | 5,801 | 4,346 |
| Total assets | $108,292 | $116,264 |
| Current liabilities | $ 19,709 | $ 23,645 |
| Long-term debt, less current maturities | 2,306 | 834 |
| Sundry non-current items | 5,879 | 6,620 |
| Total liabilities | $ 27,894 | $ 31,099 |
| Net assets | $ 80,398 | $ 85,165 |

Separate financial statements have not been presented for non-consolidated subsidiaries since, considered in the aggregate as a single subsidiary, they do not constitute a "significant subsidiary".

The minority interest in the consolidated balance sheet consists of:

| | (In Thousands) December 31, 1970 | 1971 |
|---|---|---|
| Capital stock | $ 5,568 | $ 2,033 |
| Capital surplus | 10,518 | 1,912 |
| Retained earnings | 39,705 | 3,023 |
| | $ 55,791 | $ 6,968 |

### B. Inventories

Inventories, at lower of cost or market (at cost as to whiskey, other spirits and wine) consist of the following:

| | (In Thousands) Cost Method | | | |
|---|---|---|---|---|
| | Total | First-in, First-out or Average | Standard with Percentage Adjustment to Approximate Actual | Retail Method |
| December 31, 1970: | | | | |
| Whiskey, other spirits and wine: | | | | |
| In bond | $247,763 | $247,763 | — | — |
| Tax paid | 24,985 | 24,985 | — | — |
| Finished goods | 66,344 | 2,092 | $ 52,703 | $11,549 |
| Work in process | 21,503 | 2,518 | 18,985 | — |
| Raw materials and supplies | 68,134 | 37,651 | 30,483 | — |
| | $428,729 | $315,009 | $102,171 | $11,549 |
| December 31, 1971: | | | | |
| Whiskey, other spirits and wine: | | | | |
| In bond | $207,553 | $207,553 | — | — |
| Tax paid | 34,188 | 34,188 | — | — |
| Finished goods | 71,761 | 3,552 | $ 56,298 | $11,911 |
| Work in process | 25,963 | 3,561 | 22,402 | — |
| Raw materials and supplies | 65,900 | 28,839 | 37,061 | — |
| | $405,365 | $277,693 | $115,761 | $11,911 |

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

The in bond inventory is subject to payment of excise taxes upon removal from Government controlled premises.

Inventories used in computing cost of goods sold were as follows (in thousands):

| | |
|---|---|
| December 31, 1969 | $424,214 |
| 1970 | 419,955 |
| 1971 | 405,365 |

### C. Property, Plant and Equipment

Provision for depreciation and amortization is computed principally on the straight-line method. However, sum-of-the-years digits and the declining balance methods are also utilized. The annual rates used are generally as follows:

| | |
|---|---|
| Buildings | 2% to 25% |
| Machinery, equipment, furniture and fixtures | 2% to 50% |

Leasehold improvements are amortized over the term of the lease or estimated useful life of the asset, whichever is the shorter period. Depletion is charged to operations based on usage and estimated fibre deposit reserves. Cost of mine development is amortized by charges to operations based on an estimated useful life of eighty months.

Maintenance and repairs are charged to costs of production or directly to income as incurred. Renewals and betterments which extend the lives of the assets are capitalized. At the time of sale or disposition of assets, the cost and related accumulated depreciation or amortization are eliminated from the accounts, and any gains or losses are reflected in income.

### D. Intangibles and Franchises

Intangibles represent the excess of unallocated cost of investments over equity in net assets of Schenley (1970—$85,583,000; 1971—$68,448,000) and other subsidiaries (1970—$43,045,000; 1971—$33,726,000). These net excess acquisition costs have been recognized by the management of Glen Alden as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at the respective dates of acquisition, the management of Glen Alden adopted the policy, in accordance with Accounting Research Bulletin 43, of not amortizing these excess purchase costs so long as there is no diminution in value of the related investments.

Other intangibles are being amortized over periods not exceeding twenty years.

See Note 1 of Notes to Statement of Consolidated Income.

Franchises consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits which, in the opinion of management, have continuing value and accordingly are not being amortized.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

**E. Long-Term Debt**
(excluding current amounts)

| | (In Thousands) December 31, 1970 | 1971 |
|---|---|---|
| Long-term notes: | | |
| Notes payable to banks in varying semi-annual installments commencing December 31, 1974 through December 31, 1978 (interest at ½% and ¾% above prime rate) | | $ 75,000 |
| Notes payable to banks in quarterly installments to March 31, 1973 (interest at ⅜% above prime rate) | $ 18,750 | 3,750 |
| Notes payable to foreign banks in varying installments to 1980 with interest rates from 3% to 8¼% | 25,610 | 19,583 |
| 6½% notes payable to insurance companies, due March 1, 1979 | 71,500 | 71,500 |
| 6½% mortgage and collateral note payable to insurance company, due monthly to October 15, 1984 | 5,536 | 4,812 |
| 7¼% notes payable to insurance company (a) | 35,000 | |
| 3% notes payable to insurance companies | 8,500 | |
| 8½% notes payable, due in varying installments to June 30, 1974 | | 7,000 |
| 6¼% notes payable, due in varying annual installments to February 28, 1974 | 10,498 | 4,486 |
| 4⅞% mortgage and collateral trust sinking fund notes payable | 5,125 | |
| 3% to 8% sundry indebtedness consisting principally of mortgages and other notes, due in varying installments to 1986 | 18,753 | 14,954 |
| Unamortized discount | (3,098) | (367) |
| | $196,174 | $200,718 |
| Subordinated debentures: | | |
| 6% sinking fund subordinated debentures, due 1988 (sinking fund payments begin in 1979 and continue through 1987) | $334,720 | $321,725 |
| 7½% sinking fund subordinated debentures, due 1985 (sinking fund payments begin in 1972 and continue through 1984) (b) | | 75,719 |
| 7% subordinated convertible debentures, due July 31, 1973 (c) | 10,000 | 10,000 |
| 20-year five per cent subordinated convertible debentures, due serially to September 30, 1986 (d) | 814 | 814 |
| Unamortized discount (e) | (78,814) | (88,461) |
| | $266,720 | $319,797 |

(a) These notes were prepaid in 1971 and warrants to purchase 700,000 shares of common stock reacquired from the holder of the notes.

(b) The 7½% sinking fund subordinated debentures were issued in June 1971 in the merger of a wholly-owned subsidiary of Glen Alden with Schenley. Except for shares as to which appraisal rights were claimed, each outstanding

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

share of Schenley common stock was converted into $5 in cash and $30 principal amount of 7½% debentures and each outstanding share of Schenley $1.40 cumulative convertible preferred stock was converted into $4.50 in cash and $27 principal amount of 7½% debentures. It is estimated that at February 22, 1972 the maximum number of shares which may be entitled to appraisal was approximately 135,000 shares of common stock and 545,000 shares of $1.40 cumulative convertible preferred stock. No final determination has as yet been made under Delaware law of the number of shares which will qualify for appraisal or the amount which will be payable in respect thereof. Additional 7½% debentures may be issued to former shareholders of Schenley whose appraisal claims are dismissed by the court. Included, in 1971, in "Investments and Advances—Other Investments, etc." and "Reserves and Other Liabilities—Other" are the funds segregated and the contra estimated liability for appraisal claims of former shareholders of Schenley.

(c) Convertible into common stock at $17 per share, subject to antidilution.

(d) Convertible into $3.15 cumulative convertible preferred stock at $89.16 per share, subject to antidilution.

(e) The 6% sinking fund subordinated debentures and 7½% sinking fund subordinated debentures have effective interest rates of 8% and 9⅜%, respectively, after giving effect to unamortized discount.

The aggregate of long-term notes and debentures maturing during the five years ending December 31, 1976, net of unamortized discount, is approximately as follows: 1972, $36,016,000 (included in current liabilities); 1973, $40,843,000; 1974, $31,008,000; 1975, $20,323,000; and 1976, $19,849,000.

Agreements covering certain indebtedness of Glen Alden and its subsidiaries contain covenants concerning working capital, indebtedness, dividends, mergers, capital asset transactions, etc. At December 31, 1971 approximately $26,500,000 of consolidated retained earnings was available for the payment of cash dividends on common stock and for redemptions or purchases of capital stock.

### F. Income Taxes and Related Charge

See Note 2 of Notes to Statement of Consolidated Income.

### G. Preferred and Preference Stocks

Preferred stocks, without par value, listed in the order of their preference were as follows:

| Class of Stock | Shares Authorized | Shares Outstanding | Conversion Rate | Common Shares Reserved |
|---|---|---|---|---|
| December 31, 1970: | | | | |
| $2.25 Senior Cumulative Convertible | 386,232 | 386,232 | 3.5 to 1 | 1,351,812 |
| Class B Senior Cumulative Convertible ($3) | 2,200,000 | 770,695 | 7 to 1 | 5,394,865 |
| $3.15 Cumulative Convertible | 1,300,000 | 153,424 | 7.65 to 1 | 1,173,694 |
| Class C (Contingent Preference) | 167,856 | 18,642 | | 167,778 |
| Total | | | | 8,088,149 |
| December 31, 1971: | | | | |
| $2.25 Senior Cumulative Convertible | 378,969 | 378,969 | 3.5 to 1 | 1,326,392 |
| Class B Senior Cumulative Convertible ($3) | 2,200,000 | 708,163 | 7 to 1 | 4,957,141 |
| $3.15 Cumulative Convertible | 1,300,000 | 98,703 | 7.65 to 1 | 755,078 |
| Class C (Contingent Preference) | 134,368 | 17,543 | | 157,887 |
| Total | | | | 7,196,498 |

The first three preferred stocks listed above are entitled to cumulative dividends at the annual rates as indicated.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

The holders of Series 6 and 7 of the Class C Stock are entitled to cumulative dividends at the rate of $3.15 per share in 1972 and holders of Series 5 a pro rata dividend to date of redemption in 1972.

The following table sets forth the redemption requirements of the outstanding preferred and preference stocks (substantially equivalent to aggregate liquidation requirement) and the resulting excess over the aggregate stated value of such stocks. There are no restrictions upon retained earnings resulting from such excesses.

| | Redemption Price Per Share | (In Thousands) December 31, 1970 | 1971 |
|---|---|---|---|
| Redemption requirements: | | | |
| $2.25 Senior Cumulative Convertible | $ 52.50 | $ 20,277 | $ 19,896 |
| Class B Senior Cumulative Convertible ($3) | 107.00 | 82,464 | 75,773 |
| $3.15 Cumulative Convertible | 110.00 | 16,877 | 10,858 |
| Class C (Contingent Preference) | 90.00 | 1,678 | 1,579 |
| | | 121,296 | 108,106 |
| Aggregate stated value of preferred shares outstanding | | 6,948 | 5,011 |
| Excess of redemption requirement over aggregate stated value of preferred shares outstanding | | $114,348 | $103,095 |

### H. Stock Options and Bonus Plans

Subsequent to December 31, 1971 Glen Alden amended its 1965 Qualified Stock Option Plan, subject to approval of stockholders, to increase the number of common shares reserved for the granting of options from 850,000 shares to 1,200,000 shares. Under the Plan, options are granted at not less than fair market value at the time of grant and become exercisable ratably over a period of not less than approximately three years. The options expire not more than five years after the date of granting but sooner in the event of death or the termination of employment.

Upon the effectiveness of the merger with Stanley Warner Corporation in 1967 all outstanding options to purchase common stock of Warner were assumed by Glen Alden so that each option was exercisable for the same number of shares of Class B Senior Stock to which such option holder would have been entitled had he exercised his option in full immediately before the effective date of the merger.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

A summary of the options which became exercisable and which were exercised during the two years ended December 31, 1971 and the shares under option at December 31, 1971 is as follows:

| | Number of Shares | Option Price (Grant Date) Range Per Share | Option Price (Grant Date) Total | Fair Market Value Range Per Share | Fair Market Value Total |
|---|---|---|---|---|---|
| COMMON | | | | | |
| Options which became exercisable during: | | | | (at date exercisable) | |
| 1970 | 149,264 | $ 7.75 to $17.75 | $2,143,781 | $ 5.13 to $ 8.75 | $ 863,187 |
| 1971 | 182,148 | 5.13 to 17.75 | 2,090,750 | 8.13 to 11.38 | 1,732,858 |
| Options exercised during: | | | | (at date exercised) | |
| 1970 | None | — | — | — | — |
| 1971 | 6,625 | $ 5.13 to $ 9.25 | $ 42,063 | $ 8.63 to $10.88 | $ 65,363 |
| Options outstanding as of December 31, 1971 | | | | | |
| Granted during: | | | | (at date granted) | |
| 1968 | 301,350 | $13.75 to $17.00 | $4,754,638 | $13.75 to $17.00 | $4,754,638 |
| 1969 | 93,250 | 8.00 to 17.75 | 1,025,626 | 8.00 to 17.75 | 1,025,626 |
| 1970 | 233,875 | 5.13 to 7.75 | 1,507,188 | 5.13 to 7.75 | 1,507,188 |
| 1971 | 81,625 | 7.88 to 9.63 | 723,111 | 7.88 to 9.63 | 723,111 |
| | 710,100 | | $8,010,563 | | $8,010,563 |
| At December 31, 1971: | | | | | |
| Exercisable | 437,536 | — | — | — | — |
| Available for grant | 131,945 | — | — | — | — |
| CLASS B SENIOR CUMULATIVE CONVERTIBLE ($3) PREFERRED | | | | | |
| Options which became exercisable during: | | | | (at date exercisable) | |
| 1970 | 17,461 | $39.89 to $91.15 | $1,294,211 | $47.50 to $52.50 | $ 856,267 |
| 1971 | 5,090 | 39.89 | 203,040 | 67.00 | 341,030 |
| Options exercised during: | | | | (at date exercised) | |
| 1970 | 1,099 | $39.89 | $ 43,839 | $47.50 to $58.75 | $ 57,594 |
| 1971 | 18,097 | 19.71 to 50.05 | 734,165 | 65.00 to 76.75 | 1,305,293 |
| Options outstanding as of December 31, 1971 | | | | | |
| Granted during | | | | (at date granted) | |
| 1962 | 220 | $19.71 | $ 4,336 | $20.75 | $ 4,565 |
| 1967 | 36,629 | 91.15 | 3,338,733 | 91.15 | 3,338,733 |
| | 36,849 | | $3,343,069 | | $3,343,298 |
| At December 31, 1971: | | | | | |
| Exercisable | 36,849 | — | — | — | — |
| Available for grant | None | — | — | — | — |

Glen Alden makes no charges to income with respect to stock options.

Under Glen Alden's stock bonus plans, an aggregate of 146,500 shares have been allocated and issued, and 43,500 shares were available for allocation at December 31, 1971. The excess of market value of such shares over the par value thereof is being charged to income ratably over periods not exceeding eight years.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

**I. Retirement Plans**

Glen Alden and its subsidiaries have various contributory and non-contributory retirement plans covering eligible employees. The amount charged to income and production costs under the plans was $4,116,000 and $4,048,000, respectively for the two years ended December 31, 1971. It is the policy of Glen Alden to fund pension cost accrued except for Schenley and Panacon which fund pension costs as required under Federal income tax regulations. Effective January 1, 1970 a plan of one of the subsidiaries was amended, providing additional benefits for participants and reducing the waiting period required to participate in the plan. In addition, the interest assumptions were revised. These changes had the effect of increasing pension expense for the year 1970 by approximately $400,000. As of December 31, 1971, the actuarially computed value of vested benefits under applicable plans exceeded the total of the related pension funds and balance sheet accruals by approximately $5,000,000. Unfunded prior service costs amounted to approximately $16,700,000 at December 31, 1971 substantially all of which is being funded over various periods not exceeding thirty years.

**J. Leases**

At December 31, 1971, Glen Alden and its subsidiaries were obligated, under leases expiring after December 1974, for the payment of minimum annual rentals aggregating $11,600,000 plus, in certain instances, additional rentals based upon sales, real estate taxes, insurance, etc. The leases have varying expiration dates to 2022, with the majority of such rentals expiring by 1995.

**K. Guarantees, Commitments, Etc.**

Glen Alden was guarantor as of December 31, 1971 as follows: (i) $8,400,000 of mortgage notes previously held by Glen Alden or subsidiaries but sold to outsiders; (ii) $17,200,000 of industrial revenue bonds and other loans made to a former subsidiary, the purchaser of the subsidiary having agreed to indemnify Glen Alden against any loss under the guarantees; (iii) $40,000,000 of notes of Northwest Industries, Inc. issued in connection with its purchase of Buckingham. The purchase price of Buckingham is subject to reduction after December 31, 1975 by reason of Schenley's guarantee of a specified amount of "depletions" (i.e., case sales by wholesalers to retailers) of Cutty Sark Scotch whisky and other Buckingham products during the five years ending December 31, 1975.

Glen Alden is contingently liable under certain long-term leases on properties sold. Glen Alden, however, has received certain agreements of indemnification, principally on theatre leases, against loss under said leases.

See Note E (b) under "Long-Term Debt" with respect to appraisal claims of former shareholders of Schenley.

Glen Alden and its subsidiaries are defendants in a number of lawsuits and claims, including antitrust actions. It is the judgment of management, based on counsel's opinions as to the merits of these suits and claims, that they should not result in liability which in the aggregate would have a material adverse effect on Glen Alden's consolidated financial statements.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### L. Supplementary Profit and Loss Information (Consolidated)

| | (In Thousands) Year Ended December 31, 1970 | 1971 |
|---|---|---|
| Maintenance and repairs: | | |
| Charged to cost of sales and operating expenses | $ 11,447 | $ 13,441 |
| Charged to other operating accounts | 1,165 | 1,051 |
| Charged to other accounts (production costs, etc.) | 3,128 | 2,884 |
| Total | $ 15,740 | $ 17,376 |
| Depreciation, depletion, and amortization: | | |
| Property, plant, and equipment | $ 13,330 | $ 13,665 |
| Less amortization of excess of equity in net assets over cost of the investments in acquired companies | (230) | (179) |
| Net | $ 13,100 | $ 13,486 |
| Intangibles—charged to other operating accounts | $ 432 | $ 526 |
| Taxes, other than Federal income taxes: | | |
| Federal excise, rectification taxes and duties on imported products | $288,718 | $300,426 |
| State liquor taxes | 23,190 | 26,614 |
| Payroll taxes | 12,994 | 15,244 |
| Property taxes | 7,419 | 6,435 |
| Other taxes | 12,206 | 13,180 |
| Total | $344,527 | $361,899 |
| Charged to cost of sales and operating expenses | $ 59,966 | $ 72,402 |
| Charged to other operating accounts | 9,159 | 9,789 |
| Charged to other accounts (production costs, etc.) | 275,402 | 279,708 |
| Total | $344,527 | $361,899 |
| Management and service contract fees: | | |
| Charged to cost of sales and operating expenses | $ 103 | $ 177 |
| Charged to other operating accounts (includes $478,000 and $988,000 paid to Rapid) | 660 | 1,114 |
| Total | $ 763 | $ 1,291 |
| Rents: | | |
| Charged to cost of sales and operating expenses | $ 5,418 | $ 5,706 |
| Charged to other operating accounts | 10,064 | 12,859 |
| Charged to other accounts (production costs, etc.) | 866 | 859 |
| Total | $ 16,348 | $ 19,424 |
| Royalties: | | |
| Charged to cost of sales and operating expenses | $ 177 | $ 168 |
| Charged to other operating accounts | 182 | 165 |
| Total | $ 359 | $ 333 |

Amounts shown charged to "production costs, etc." apply in part to expenses incurred in the production and storage of maturing whiskey and other spirits; under the methods of accounting followed by Schenley and its subsidiaries, such expenses become a part of inventory cost and are charged to profit and loss when such products are sold.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### N. Condensed Financial Statements—Glen Alden Corporation (Parent Company)

#### BALANCE SHEET (Parent Company)

#### ASSETS

| | (In Thousands) December 31, 1970 | 1971 |
|---|---|---|
| **Current Assets:** | | |
| Cash | $ 21,146 | $ 14,857 |
| Intercompany receivables | 26,665 | — |
| Other (Schedule XII) | 2,650 | 6,120 |
| Total | 41,461 | 20,977 |
| **Investments and Advances:** | | |
| Securities of consolidated subsidiaries—at equity (Schedule III) | 517,034 | 544,464 |
| Due from consolidated subsidiaries (Schedule IV) | 27,017 | 18,895 |
| Other | 206 | 180 |
| Total | 544,257 | 563,539 |
| Fixed Assets, at cost (net of accumulated depreciation and amortization) | 462 | 567 |
| **Other Assets:** | | |
| Intangibles, less amortization (Schedules VII and VIII) | 109,775 | 101,971 |
| Franchises | 50,000 | 50,000 |
| Deferred charges and sundry (Schedule XII) | 3,060 | 3,109 |
| Total | 162,835 | 155,080 |
| | $749,015 | $740,163 |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Short-term debt | $ 20,000 | — |
| Current maturities of long-term debt, less unamortized discount | 71,752 | $ 28,794 |
| Accounts payable and accrued liabilities | 13,002 | 14,214 |
| Intercompany payables | — | 3,835 |
| Accrued Federal income taxes | 9,402 | 1,906 |
| Total | 114,156 | 48,749 |
| **Long-Term Debt, Less Current Maturities and Unamortized Discount (Schedule IX):** | | |
| Notes payable | 82,840 | 100,048 |
| Subordinated debentures | 272,961 | 336,035 |
| Total | 355,801 | 436,083 |
| Intercompany Payables Due after One Year (Schedule X) | 3,435 | 3,335 |
| Reserves and Other Liabilities (Schedule XII) | 7,926 | 7,593 |
| **Stockholders' Equity:** | | |
| Capital stock | 33,683 | 31,604 |
| Capital surplus | 129,932 | 128,820 |
| [illegible] | 123,657 | 151,936 |
| Less treasury stock, at cost | (24,875) | (67,957) |
| Total | 267,697 | 244,403 |
| | $749,015 | $740,163 |

(a) At December 31, 1971, approximately $26,500,000 of retained earnings was available for the payment of cash dividends on common stock and for redemptions or purchases of capital stock.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Continued)

### N. CONDENSED FINANCIAL STATEMENTS—GLEN ALDEN CORPORATION (Parent Company) (Continued)

### CONDENSED STATEMENT OF INCOME (Parent Company)

| | (In Thousands) Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1967 | 1968 | 1969 | 1970 | 1971 |
| | (Not Covered by Accountants' Opinion) | | | | |
| **REVENUES:** | | | | | |
| Equity in income before extraordinary items of subsidiaries(a) | $14,787 | $ 32,092 | $ 43,257 | $ 48,875 | $ 52,107 |
| Other—net | 4,357 | 1,789 | 1,394 | 2,278 | 1,854 |
| | 19,144 | 33,881 | 44,651 | 51,153 | 53,961 |
| **COSTS AND EXPENSES:** | | | | | |
| General and administrative expenses | 2,049 | 6,443 | 8,776 | 10,659 | 11,337 |
| Interest and debt expense | 3,052 | 17,978 | 38,489 | 39,773 | 37,939 |
| Depreciation and amortization | 57 | 145 | 162 | 162 | 192 |
| Operating income of sold operations(b) | (62) | — | — | — | — |
| | 5,096 | 24,566 | 47,427 | 50,594 | 49,468 |
| INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS | 14,048 | 9,315 | (2,776) | 559 | 4,493 |
| FEDERAL INCOME TAXES—CHARGE (CREDIT)(c) | 223 | (13,341) | (23,578) | (24,039) | (23,746) |
| INCOME BEFORE EXTRAORDINARY ITEMS | 13,825 | 22,656 | 20,802 | 24,598 | 28,239 |
| EXTRAORDINARY ITEMS | 3,786 | 866 | 1,030 | (2,267) | 3,603 |
| NET INCOME | $17,611 | $ 23,522 | $ 21,832 | $ 22,331 | $ 31,842 |

(a) See last paragraph of Note 1, and Note 6 of Notes to Statement of Consolidated Income.

(b) Theatre operations of the parent company were transferred to a wholly-owned subsidiary during 1968.

(c) The above Federal income tax charge (credit) represents the parent company's share of the consolidated tax provision, the computation of which excludes "Equity in income before extraordinary items of subsidiaries."

See Notes to Statement of Consolidated Income.

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### NOTES TO FINANCIAL STATEMENTS—(Concluded)

### N. CONDENSED FINANCIAL STATEMENTS—GLEN ALDEN CORPORATION (Parent Company) (Concluded)

### STATEMENT OF CHANGES IN FINANCIAL POSITION (PARENT COMPANY)

| | (In Thousands) Year Ended December 31, 1970 | 1971 |
|---|---|---|
| **Source:** | | |
| Operations— | | |
| Income before extraordinary items | $ 24,598 | $ 28,239 |
| Charges (credits) not affecting current outlays: | | |
| Depreciation and amortization | 162 | 192 |
| Amortization of intangibles, debt discount and expense, etc. | 3,814 | 3,988 |
| Deferred income tax provision | 379 | 748 |
| Equity in undistributed income before extraordinary items of subsidiaries | (10,274) | (34,697) |
| Total from operations before extraordinary items | 18,679 | (1,530) |
| Extraordinary (charges) credits | (2,267) | 3,603 |
| Equity in extraordinary items of subsidiaries | 2,267 | (2,726) |
| Total from extraordinary items | — | 877 |
| Total from operations | 18,679 | (653) |
| Issuance of long-term debt | 316 | 137,772 |
| Issuance of stock for conversions and exercise of stock options | 197 | 2,692 |
| Equity in acquisition by Schenley of its common and $1.40 preferred stock | — | 36,927 |
| Sale of RKO-Stanley Warner Theatres, Inc. | — | 31,352 |
| | 19,192 | 208,090 |
| **Disposition:** | | |
| Reduction and reclassification of long term debt | 18,731 | 63,451 |
| Redemptions and conversions of preferred stock | 474 | 2,015 |
| Acquisition of common treasury shares | 165 | 45,983 |
| Cash dividends | 3,693 | 5,270 |
| Additions to property, plant and equipment | 32 | 309 |
| Acquisition of minority interest in Schenley | — | 36,927 |
| Increases (decreases) in investments and advances to subsidiaries, etc.—net | (20,921) | 3,593 |
| Excess cost of investments over related equities of subsidiaries acquired | 9,740 | — |
| Equity in certain transactions of subsidiaries | 9,862 | 1,857 |
| Other—net | 1,503 | 3,762 |
| | 23,279 | 163,167 |
| Increase (Decrease) in Working Capital | $ (4,087) | $ 44,923 |
| Changes in Components of Working Capital: | | |
| Increases (decreases) in current assets: | | |
| Cash | $ 7,789 | $ 2,711 |
| Intercompany receivables | 15,695 | (26,665) |
| Other | 1,652 | 3,470 |
| | 25,136 | (20,484) |
| Decreases (increases) in current liabilities: | | |
| [illegible] | (17,215) | 20,[illegible] |
| Long-term debt, due currently | (1,979) | 42,958 |
| Accounts payable and accrued liabilities | 714 | (1,212) |
| Intercompany payables | — | (3,835) |
| Accrued Federal income taxes | (10,743) | 7,496 |
| | (29,223) | 65,407 |
| Increase (Decrease) in Working Capital | $ (4,087) | $ 44,923 |

SCHEDULE III

SCHEDULE I

GLEN ALDEN CORPORATION AND SUBSIDIARIES

INVESTMENTS IN SECURITIES OF AFFILIATES

For the Three Years Ended December 31, 1978, 1977 and 1976

(Dollar Amounts in Thousands)

A 1430

| Column A | Column B | | Column C | | Column D | | Column E | |
|---|---|---|---|---|---|---|---|---|
| | Balance at Beginning of Year | | Additions | | Deductions | | Balance at Close of Year | |
| Issuer and Title of Issue | Number of Shares or Units Principal Amount of Bonds and Notes | Amount in Dollars | Number of Shares or Units Principal Amount of Bonds and Notes | Amount in Dollars | Number of Shares or Units Principal Amount of Bonds and Notes | Amount in Dollars | Number of Shares or Units Principal Amount of Bonds and Notes | Amount in Dollars |
| S. CONSOL. DATED: | | | | | | | | |
| Common Stock | 3,618 | $ 31,971 | (Note A) | $ 2,152 | (Note D) | $ 1 | 3,618 | $ 32,723 |
| D. Company, Inc. Com- | | | (Note C) | 1 | | | | |
| Corporation Com- | 3 | 61,402 | | | | | | |
| | 10 | 38,769 | | | (Note A) | | 3 | 60,865 |
| Corporation (Note D): | | | | | (Note A) | | | |
| Common Stock | | | | | (Note D) | 38, | | |
| | | | 6,528,739 | 33,957 | | | 6,528,739 | |
| | | | 7,856,000 | | | | 7,856,000 | |
| Lanex Corporation | | | (Note A) | 4,102 | (Note C) | | | 37,158 |
| Sk (Note D) | 10,000 | 67,238 | | | | | | |
| Inc. Commo | | | | | (Note A) | 2,2 | 10,000 | 65,674 |
| Warner Theatres | 525,000 | 2,156 | (Note A) | 319 | | | | |
| mon Stock | 10 | 29,434 | | | | | 525,000 | 2,475 |

Additions represent excess and deductions represent reductions of equity in net income over dividends [illegible]

1971 Additions in 1971 for Schenley Industries, Inc. includes $51,[illegible] [illegible] (See Note 1 of Notes to Statement of Consolidated Income.

[illegible] for intangibles of the unamortized excess of cost over equity in net assets (See Subsidiaries VII [illegible]).

[illegible] Glass (Mex) equity in certain transactions of subsidiaries.

[illegible] 1972 Owens Casey was merged into Drug Mart [illegible] Company [illegible]

[illegible] of Consolidated Income); subsequent Libbey Glass [illegible]

[illegible] for equity in undistributed earnings of less than majority owned [illegible]

Note 1 of Notes to Statement of Consolidated Income.

[illegible] and subsidiary of A.K.O.-S [illegible] Wines & Spirits, Inc.

[illegible] from Glass Ab.

[illegible] of the equity net worth applicable to [illegible]

[illegible] adjusted income.

See Note 1 of Notes

outstanding shares of common and $1.40 preferred stock. December 27, 1971, or 206 shares of common stock (no par value) for all

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### INTANGIBLE ASSETS

### For the Years Ended December 31, 1970 and 1971

(In Thousands)

| Column A | Column B | Column C | Column D | Column E | Column F |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Year | Additions at Cost | Deductions | Other Changes Add (Deduct) Describe | Balance at End of Year |
| **1970:** | | | | | |
| COMPANY: | | | | | |
| Excess of cost of investments in subsidiaries over related equities | $ 98,860 | $ 9,047 | (Note A) (Note B) | $ 4,[illegible] | $[illegible] |
| CONSOLIDATED: | | | | | |
| Excess of cost of investments in subsidiaries over related equities | $[illegible] | [illegible] | | | |
| Patents, licenses, trademarks, and formulas, etc. | 4,915 | [illegible] | | | |
| TOTAL CONSOLIDATED | $152,487 | $ 8,[illegible] | | $ (95) | [illegible] |
| **1971:** | | | | | |
| COMPANY: | | | | | |
| Excess of cost of investments in subsidiaries over related equities | $113,020 | $37,171 | (Note C) | $[illegible] | $[illegible] |
| CONSOLIDATED: | | | | | |
| Excess of cost of investments in subsidiaries over related equities | $136,019 | $39,352 | (Note C) | $(64,[illegible]) | $[illegible] |
| Patents, licenses, trademarks, and formulas, etc. | 4,924 | 478 | | | [illegible] |
| TOTAL CONSOLIDATED | $140,943 | $39,810 | | $(64,599) | $[illegible] |

NOTES:

(A) Transfer of excess of cost of investment in subsidiary over related equity therein from investment account [illegible] and [illegible]

(B) Termination of right to purchase shares under stock purchase agreement's applicable to a company acquired in [illegible]

(C) Equity in the net gain from certain sales of investments in subsidiaries reduced in 1971 by equity in [illegible]

## GLEN ALDEN CORPORATION AND SUBSIDIARIES

### RESERVES FOR DEPRECIATION AND AMORTIZATION OF INTANGIBLE ASSETS

### For the Years Ended December 31, 1970 and 1971

(In Thousands)

| Column A | Column B | Column C | Column D | | Column E |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Year | Additions Charged To Profit and Loss or Income | Deductions from Reserves: Description | Deductions from Reserves: Amount | Balance at Close of Year |
| **1970:** | | | | | |
| COMPANY: | | | | | |
| Excess of cost of investment in subsidiary over related equity | | $221 | (Note A) | $(3,024) | $3,245 |
| CONSOLIDATED: | | | | | |
| Excess of cost of investment in subsidiaries over related equities | $5,072 | $422 | (Note B) | $ 170 | $5,324 |
| Patents, licenses, trademarks, and formulas, etc. | 3,962 | 41 | | | 4,003 |
| TOTAL CONSOLIDATED | $9,034 | $463 | | $ 170 | $9,327 |
| **1971:** | | | | | |
| COMPANY: | | | | | |
| Excess of cost of investment in subsidiary over related equity | $3,245 | $221 | | | $3,466 |
| CONSOLIDATED: | | | | | |
| Excess of cost of investment in subsidiaries over related equities | $5,324 | $480 | | | $5,804 |
| Patents, licenses, trademarks, and formulas, etc. | 4,003 | 73 | | | 4,076 |
| TOTAL CONSOLIDATED | $9,327 | $553 | | | $9,880 |

NOTES:

(A) Transfer of [illegible] at January 1, 1970, of excess of cost of investment in subsidiary over related equity [illegible]. (See Schedules VI and VII)

(B) Balance at date of sale of subsidiaries.



A1431

A1433 EX. 145

USA 335-475
(LD 4-23-71)

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

145 id

E. M. WARBURG, PINCUS & CO., INC.

DAILY PRICES FOR SCHENLEY COMMON

AND CONVERTIBLE PREFERRED

(January through February 24, 1971)

| Date | Common (High) | Common (Low) | $1.40 Convertible Preferred (High) | $1.40 Convertible Preferred (Low) |
|---|---|---|---|---|
| January 4 | 25 1/2 | 25 1/4 | 23 1/2 | 23 1/4 |
| 5 | 25 7/8 | 25 1/2 | 23 7/8 | 23 1/2 |
| 6 | 26 | 25 3/4 | 24 | 23 3/4 |
| 7 | 26 | 25 | 24 | 23 1/2 |
| 8 | 25 7/8 | 25 1/4 | 23 1/2 | 23 1/4 |
| 11 | 25 7/8 | 25 | 23 3/4 | 23 1/4 |
| 12 | 26 1/8 | 25 7/8 | 23 3/4 | 23 1/2 |
| 13 | 26 7/8 | 26 1/2 | 24 1/2 | 23 7/8 |
| 14 | 26 5/8 | 26 1/8 | 23 3/4 | 23 5/8 |
| 15 | 26 3/8 | 26 | 23 7/8 | 23 1/2 |
| 18 | 26 3/8 | 26 1/8 | 23 5/8 | 23 3/8 |
| 19 | 26 3/8 | 26 | 23 5/8 | 23 3/8 |
| 20 | 26 1/4 | 25 7/8 | 23 1/2 | 23 3/8 |
| 21 | 26 1/2 | 25 7/8 | 23 7/8 | 23 3/8 |
| 22 | 27 3/8 | 26 1/2 | 24 1/4 | 23 3/4 |
| 25 | 28 3/4 | 27 3/4 | 25 3/4 | 25 5/8 |
| 26 | 29 | 28 5/8 | 26 1/4 | 25 5/8 |
| 27 | 28 3/4 | 28 1/4 | 26 1/8 | 25 1/4 |
| 28 | 28 1/2 | 28 1/4 | 25 7/8 | 25 1/4 |
| 29 | 28 3/4 | 28 1/2 | 25 7/8 | 25 1/4 |
| February 1 | 29 7/8 | 28 5/8 | 27 | 25 7/8 |
| 2 | 30 3/4 | 29 7/8 | 27 1/2 | 26 5/8 |
| 3 | 31 1/4 | 30 3/4 | 28 | 27 1/4 |
| 4 | 31 3/8 | 30 5/8 | 28 1/8 | 27 5/8 |
| 5 | 31 | 30 5/8 | 28 1/4 | 27 3/4 |
| 8 | 31 1/2 | 31 | 28 1/4 | 27 3/4 |
| 9 | 31 7/8 | 31 1/4 | 28 1/2 | 27 7/8 |
| 10 | 31 | 29 3/4 | 27 5/8 | 26 5/8 |
| 11 | 30 7/8 | 30 5/8 | 27 7/8 | 27 3/8 |
| 12 | 30 3/4 | 30 1/2 | 27 7/8 | 27 1/4 |
| 16 | 30 3/4 | 30 | 27 1/2 | 27 |
| 17 | 29 7/8 | 29 1/2 | 27 1/4 | 26 3/4 |
| 18 | 29 3/4 | 29 3/8 | 27 | 26 3/4 |
| 19 | 29 5/8 | 29 1/4 | 26 7/8 | 26 1/4 |
| 22 | 29 1/4 | 28 3/4 | 26 3/8 | 25 7/8 |
| 23 | 28 7/8 | 28 5/8 | 26 | 25 1/4 |
| 24 | 29 1/4 | 28 3/4 | 26 7/8 | 26 |
| Average | 28 1/4 | | 25 1/2 | |

SOURCE: IBL -- Daily Stock Price Index -- New York Stock Exchange

A1233

EX 7

SCHENLEY INDUSTRIES, INC.

CASH, CASH EQUIVALENT MARKETABLE SECURITIES

| | August 31, 1967 | December 31, 1967 |
|---|---|---|
| **Consolidated Statement** | | |
| Cash | $15,646 | $22,701 |
| Certificate of Deposit | 5,000 | -0- |
| Marketable Securities | 25,065 | 33,353 |
| Glen Alden Debentures | -0- | -0- |
| Total | $45,711 | $56,054 |
| Less: | | |
| Buckingham Corp. | | |
| Cash | $ 1,176 | $ 910 |
| Certificate of Deposit | 5,000 | -0- |
| Marketable Securities | 25,065 | 30,753 |
| Total | $31,241 | $31,663 |
| Net Cash or Equivalent Available to Schenley | $14,470 | $24,391 |

* This is after payment of $95,000 re merger.

Note - Prior to December 15, 1969 Schenley Industries [illegible] of Buckingham Corp. After December 15, 1969 [illegible]

SOURCE - Exhibits 1 - Page 66, 2 - Page F6 and F16, [illegible] 15, 17b, 66 and 122 Page C8

000 Omitted

| December 31, 1968 | June 30, 1969 | September 30, 1969 | December 31, 1969 | December 31, 1970 | May 31, 1971 | December 31, 1971 * |
|---|---|---|---|---|---|---|
| $21,313 | $20,391 | $21,094 | $50,126 | $56,078 | $ 50,774 | $33,414 |
| 2,000 | 4,000 | -0- | 4,000 | -0- | -0- | 26,000 |
| 29,087 | 28,709 | 32,813 | 12,356 | 15,883 | 124,530 | 15,999 |
| -0- | 10,380 | 11,605 | 12,357 | 13,784 | 15,831 | 21,797 |
| $52,400 | $63,480 | $65,512 | $78,839 | $85,750 | $191,135 | $97,210 |
| $ 1,997 | $ 728 | $ 658 | $ 570 | $ 2,476 | | |
| 2,000 | -0- | -0- | -0- | -0- | | |
| 29,087 | 32,709 | 32,814 | 6,000 | 3,900 | | |
| $33,084 | $33,437 | $33,472 | $ 6,570 | $ 6,376 | -0- | -0- |
| $19,316 | $30,043 | $32,040 | $ 72,269 | $78,374 | $191,135 | $97,210 |

BEST COPY AVAILABLE

SCHENLEY INDUSTRIES, INC.

Change in Cash, Certificates of Deposit, Marketable Securities (Cash or Equivalents) and Outstanding Debt Between May 31, 1968 and May 31, 1971

| | | | 000 Omitted |
|---|---|---|---|
| Cash or Equivalent on Hand May 31, 1971 (Including $15,831 of 6% Glen Alden Debentures) | | | $191,135 |
| Cash or Equivalent on Hand May 31, 1968 * | | | 13,447 |
| Increase in Cash or Equivalent since May 31, 1968 | | | 177,688 |
| Reduction of Debt | | | |
| May 31, 1971 | | | |
| Short Term Debt | $ 89,600 | | |
| Long Term Debt (Including Current Maturities) | 82,000 | | |
| Total | | $171,600 | |
| May 31, 1968 | | | |
| Short Term Debt | $120,750 | | |
| Long Term Debt (Including Current Maturities) | 88,750 | | |
| Total | | 209,500 | |
| Reduction of Debt | | | 37,900 |
| TOTAL IMPROVEMENT | | | $215,588 |

* Excludes Cash or Equivalents of $33,558 owned by Buckingham Corporation, a 52% owned subsidiary of Schenley Industries, Inc. at May 31, 1971

SOURCE - Exhibits 17B and 3, 84-86, 94

A1436

EX. 150C

## I. PROPOSED REORGANIZATION

The Board of Directors of Schenley has approved a proposed reorganization pursuant to which Schenley will merge with Glen Alden Subsidiary, Inc. ("Subsidiary"), a wholly-owned subsidiary of Glen Alden formed solely for the purposes of the reorganization, and thereupon Glen Alden will become the holder of all outstanding equity securities of Schenley, except the Preference Stock. The Board of Directors is unanimously in favor of the proposed reorganization and recommends that stockholders approve the Plan and Agreement of Reorganization dated March , 1971 (the "Plan of Reorganization") and the related Agreement of Merger dated March , 1971 (the "Agreement of Merger"), copies of which are attached hereto as Exhibits A and B, respectively, by which the reorganization will be effected.

Consummation of the reorganization requires approval of the Plan of Reorganization and the Agreement of Merger by the affirmative vote of a majority of the outstanding voting power of Schenley. As noted above, Glen Alden has advised that it intends to vote its shares of Schenley Common Stock in favor of adopting the Plan of Reorganization and the Agreement of Merger, and such votes by Glen Alden will be sufficient to adopt the Plan of Reorganization and the Agreement of Merger. Unless terminated pursuant to the Plan of Reorganization (see "Right of Termination" below), it is expected that the reorganization will be consummated immediately after approval of Schenley's stockholders is obtained.

**Terms of the Reorganization:**

Prior to the reorganization becoming effective, (i) Glen Alden will transfer to Subsidiary the shares of Schenley Common Stock owned by Glen Alden, and (ii) Schenley will purchase from Glen Alden all of the Debentures to be issued in the reorganization at a price, for each $30 principal amount of Debentures, equal to the closing price of Schenley Common Stock on the last trading day prior to the Effective Date less $5.

Upon the reorganization becoming effective, the shares of Schenley stock outstanding immediately prior thereto will be converted as follows:

(a) each outstanding share of Schenley Common Stock, except the 6,887,089 shares of Schenley Common Stock owned by Glen Alden and the shares of Schenley Common Stock held as treasury stock, all of which will be cancelled, will be converted into $5.00 in cash and $30.00 principal amount of a new 7½% Glen Alden Sinking Fund Subordinated Debenture due 1986 (the "Debentures"), the terms and conditions of which are more fully set forth under "Description of Debentures" elsewhere herein;

(b) each outstanding share of Schenley $1.40 Preferred Stock, except any such shares held as treasury stock, all of which will be cancelled, will be converted into $4.50 in cash and $27.00 principal amount of Debentures; and

(c) the outstanding shares of Schenley Preference Stock will remain outstanding and unchanged.

**Purpose and Background of the Proposed Merger:**

The desirability of the proposed reorganization has been the subject of careful consideration by the Board of Directors of Schenley. As noted above, reorganization will eliminate the present minority interest in Schenley, except the Preference Stock, and thereby simplify the corporate structure of Glen Alden and Schenley.



4148—Schenley—Proxy Statement—Pandick Press, Inc.

(ED. 4-[illegible])

PLAINTIFF

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.



meeting, the persons named in the enclosed form of proxy will vote said proxy in accordance with their best judgment on such matter.

**Solicitation of Proxies:**

Solicitation of proxies will be made by mail, telephone and otherwise. Schenley may utilize the services of some of its officers and regular employees (who will receive no compensation therefor in addition to their regular salaries) to solicit proxies personally. Schenley also intends to request banks and brokers who hold shares of its stock in their names or in their custody or in the names of others, to forward copies of the proxy material to those persons for whom they hold such shares and to request instructions for voting the proxies and will reimburse such banks and brokers for their regular out-of-pocket expenses incurred in connection therewith.

## I. PROPOSED REORGANIZATION

The Board of Directors of Schenley has approved a proposed reorganization pursuant to which Schenley will merge with Glen Alden Subsidiary, Inc. ("Subsidiary"), a wholly-owned subsidiary of Glen Alden formed solely for the purposes of the reorganization, and thereupon Glen Alden will become the holder of all outstanding equity securities of Schenley, except the Preference Stock. The Board of Directors is unanimously in favor of the proposed reorganization and recommends that stockholders approve the Plan and Agreement of Reorganization dated March , 1971 (the "Plan of Reorganization") and the related Agreement of Merger dated March , 1971 (the "Agreement of Merger"), copies of which are attached hereto as Exhibits A and B, respectively, by which the reorganization will be effected.

Consummation of the reorganization requires approval of the Plan of Reorganization and the Agreement of Merger by the affirmative vote of a majority of the outstanding voting power of Schenley. As noted above, Glen Alden has advised that it intends to vote its shares of Schenley Common Stock in favor of adopting the Plan of Reorganization and the Agreement of Merger, and such votes by Glen Alden will be sufficient to adopt the Plan of Reorganization and the Agreement of Merger. Unless terminated pursuant to the Plan of Reorganization (see "Right of Termination" below), it is expected that the reorganization will be consummated immediately after approval of Schenley's stockholders is obtained.

**Terms of the Reorganization:**

Prior to the reorganization becoming effective, (i) Glen Alden will transfer to Subsidiary the shares of Schenley Common Stock owned by Glen Alden, and (ii) Schenley will purchase from Glen Alden all of the Debentures to be issued in the reorganization at a price, for each $30 principal amount of Debentures, equal to the closing price of Schenley Common Stock on the last trading day prior to the Effective Date less $5.

Upon the reorganization becoming effective, the shares of Schenley stock outstanding immediately prior thereto will be converted as follows:

(a) each outstanding share of Schenley Common Stock, except the 6,887,089 shares of Schenley Common Stock owned by Glen Alden and the shares of Schenley Common Stock held as treasury stock, all of which will be cancelled, will be converted into $5.00 in cash and $30.00 principal amount of a new 7½% Glen Alden Sinking Fund Subordinated Debenture due 1986 (the "Debentures"), the terms and conditions of which are more fully set forth under "Description of Debentures" elsewhere herein;

(b) each outstanding share of Schenley $1.40 Preferred Stock, except any such shares held as treasury stock, all of which will be cancelled, will be converted into $4.50 in cash and $27.00 principal amount of Debentures; and

(c) the outstanding shares of Schenley Preference Stock will remain outstanding and unchanged.

**Purpose and Background of the Proposed Merger:**

The desirability of the proposed reorganization has been the subject of careful consideration by the Board of Directors of Schenley. As noted above, reorganization will eliminate the present minority interest in Schenley, except the Preference Stock, and thereby simplify the corporate structure of Glen Alden and Schenley.



4148—Schenley—Proxy Statement—[illegible] Press, Inc. 3 4 5 6 7 8

A1138

EX. 154

# COMPARATIVE FINANCIAL STATISTICS FOR SEVEN DISTILLERY COMPANIES OTHER THAN SCHENLEY ("SH")

| COMPANY | YEAR ENDED |
|---|---|
| THE AMERICAN DISTILLING COMPANY ("ADC") | 9/30/70 |
| BROWN-FORMAN DISTILLERS CORPORATION ("BFD") | 4/30/71 |
| DISTILLERS CORPORATION-SEAGRAMS LIMITED ("SCS") | 7/31/70 |
| GLENMORE DISTILLERIES COMPANY ("GDC") | 6/30/70 |
| HEUBLEIN, INC. ("HIN") | 6/30/70 |
| NATIONAL DISTILLERS AND CHEMICAL CORPORATION ("NDC") | 12/31/70 |
| HIRAM WALKER-GOODERHAM & WORTS LIMITED ("WGW") | 8/31/70 |
| SCHENLEY INDUSTRIES INC. ("SH") | |

The figures used in the annexed schedules for companies other than Schenley are taken from their Annual Reports for the period indicated above.

SCHENLEY'S CASH AND EQUIVALENTS* AT MAY 31, 1971
COMPARED TO OTHER DISTILLING COMPANIES
($MILLIONS)

| | AMOUNT OF CASH & EQUIVALENTS | GROSS SALES** | CASH AS A % OF SALES | LONG TERM DEBT & EQUITY | CASH AS A % OF CAPITALIZATION | CURRENT LIABILITIES | CASH AS A % OF CURR. LIAB. | TO LIA EQU |
|---|---|---|---|---|---|---|---|---|
| ADC | 4.2 | 145 | 2.9% | 44 | 9.5% | 19 | 22.1% | |
| BFD | 5.1 | 223 | 2.3% | 146 | 3.5% | 35 | 14.6% | |
| DCS | 39.9 | 1,437 | 2.8% | 835 | 4.8% | 338 | 11.8% | 1, |
| GDS | 2.7 | 144 | 1.9% | 59 | 4.6% | 40 | 6.8% | |
| HIN | 9.2 | 583 | 1.6% | 168 | 5.5% | 71 | 13.0% | |
| NDC | 58.0 | 1,034 | 5.6% | 733 | 7.9% | 120 | 48.3% | |
| WGN | 15.6 | 715 | 2.2% | 392 | 4.0% | 152 | 10.3% | |
| SH | 191.0** | 615 | 31.1% | 496 | 38.5% | 169 | 113.0% | |

* Cash Equivalent = Cash, C.D.'s, Marketable Securities

** Schenley for year ended 12/31/70, other companies for fiscal year ended as shown on co

*** Includes Glen Alden 6% Debentures at cost

NOTE: DCS, HIN and NDC have substantial non-distilling assets and operations

SCHEDULE A

| TAL B. & ITY | CASH AS A % OF LIAB. & EQUITY |
|---|---|
| 62 | 6.8% |
| 181 | 2.8% |
| 235 | 3.2% |
| 99 | 2.8% |
| 239 | 3.8% |
| 889 | 6.5% |
| 549 | 2.8% |
| 678 | 28.2% |

ver page

A1440

## SCHENLEY PRO FORMA

## BALANCE SHEET

At May 31, 1971, Schen[illegible] had $191,000,000 of liquid assets of [illegible]h a minimum of $140,000,000, or about $1[illegible].00 per share on a diluted basis, were not required for the operation of its business and could be withdrawn as redundant assets. An additional $27,000,000 was available for the reduction of debt. After such withdrawals, as shown by the following pro forma balance sheet, Schenley's financial condition compared most favorable with other companies in the liquor distilling industry and gave Schenley a sound basis for future growth. See annexed Schedules B-1 thru B-9.

A1441

Schedule B

($MILLIONS)

| Assets | 5/31/71 | Redundant Assets & Debt Reduction | Inventory Write-Down | Pro Forma |
|---|---|---|---|---|
| Cash | $ 47 | (22) | - | 25 |
| CD's | 4 | (4) | - | - |
| Marketable Securities | 125 | (125) | - | - |
| Current Receivables | 114 | - | - | 114 |
| Inventory | 295 | - | (20) | 275 |
| Current | $585 | (151) | (20) | 414 |
| Investments, etc. | 30 | - | - | 30 |
| GA Debentures | 16 | (16) | - | - |
| Fixed Assets | 46 | - | - | 46 |
| Goodwill | 2 | - | - | 2 |
| | $678 | (167) | (20) | 492 |
| **Liabilities** | | | | |
| Current | $169 | (27) | (9)* | 133 |
| Long Term Debt | 72 | - | - | 72 |
| Other liabilities | 14 | - | - | 14 |
| **Net Worth** | | | | |
| Pfd. | 2 | - | - | 2 |
| Stock and Surplus | 422 | (140) | (11) | 271 |
| | $678 | (167 | (20) | 492 |

* Estimated Reduction in income tax liability resulting from write-down of inventory.

A1442

## WORKING CAPITAL ("WC") AS A PERCENT OF SALES
($MILLIONS)

| COMPANY | WORKING CAPITAL | SALES | % |
|---|---|---|---|
| ADC | 36 | 145 | 24 |
| BFD | 101 | 223 | 45 |
| DCS | 483 | 1,437 | 34 |
| GDS | 42 | 144 | 29 |
| HIN | 65 | 583 | 11 |
| NDC | 378 | 1,034 | 36 |
| WGW | 242 | 715 | 34 |

AVERAGE OF MIDDLE 5 COMPANIES 31%

AVERAGE OF 7 COMPANIES 30%

SH PRO FORMA 46%

$\frac{\$281}{\$615} = 46$

NOTE: THE WORKING CAPITAL (CURRENT ASSETS LESS CURRENT LIABILITIES) AT THE BEGINNING AND END OF THE FISCAL YEAR IS AVERAGED.

A1443

## RATIO OF CURRENT ASSETS ("CA") TO CURRENT LIABILITIES ("CL")
($MILLIONS)

| COMPANY | CA | CL | RATIO |
|---|---|---|---|
| ADC | 106 | 34 | 2.9x |
| BFD | 271 | 69 | 3.9x |
| DCS | 1,658 | 692 | 2.5x |
| GDS | 137 | 54 | 2.2x |
| HIN | 293 | 164 | 2.2x |
| NDC | 1,007 | 252 | 4.1x |
| WGW | 768 | 284 | 2.6x |

| | |
|---|---|
| AVERAGE OF MIDDLE 5 COMPANIES | 2.8x |
| AVERAGE OF 7 COMPANIES | 2.9x |
| SH PRO FORMA | 3.1x |

$\frac{\$414}{\$133} = 3.1$

NOTE: THE CURRENT ASSETS AND CURRENT LIABILITIES AT THE BEGINNING AND END OF THE FISCAL YEAR ARE RESPECTIVELY ADDED.

A1444

## CASH AS A PERCENT OF SALES*
($MILLIONS)

| COMPANY | CASH | SALES | % |
|---|---|---|---|
| ADC | 4.0 | 145 | 2.8 |
| BFD | 5.1 | 223 | 2.3 |
| DCS | 27.2 | 1,437 | 1.9 |
| GDC | 2.7 | 144 | 1.9 |
| HIN | 9.2 | 583 | 1.6 |
| NDC | 45.3 | 1,034 | 4.4 |
| WGW | 10.2 | 715 | 1.4 |

AVERAGE OF MIDDLE 5 COMPANIES 2.1%

AVERAGE OF 7 COMPANIES 2.3%

SH PRO FORMA 4.1%

$\frac{\$25}{615} = 4.1$

* Sales are Gross Sales

A1445

## AGE OF ACCOUNTS RECEIVABLE ("AR")
($MILLIONS)

| COMPANY | SALES | A/R | RATIO | DAYS |
|---|---|---|---|---|
| ADC | 145 | 20.8 | 7.0x | 52 |
| BFD | 223 | 32.4 | 6.9x | 53 |
| DCS | 1,437 | 265.0 | 5.4x | 68 |
| GDS | 144 | 21.0 | 6.9x | 53 |
| HIN | 583 | 66.5 | 8.8x | 42 |
| NDC | 1,034 | 156.0 | 6.6x | 55 |
| WGW | 715 | 88.3 | 8.1x | 45 |

AVERAGE OF MIDDLE 5 COMPANIES 52 DAYS

AVERAGE OF 7 COMPANIES 53 DAYS

SH PRO FORMA 68 DAYS

$\frac{\$615}{\$114} = 5.4 \quad \frac{365}{5.4} = 68$

NOTE: ACCOUNTS RECEIVABLE AT THE BEGINNING AND END OF FISCAL YEAR ARE AVERAGED.

## INVENTORY TURN OVER

## COST OF GOODS SOLD ("CGS") DIVIDED BY AVERAGE INVENTORY

| COMPANY | CGS | INV. | TURNOVER |
|---|---|---|---|
| ADC | 133 | 52.9 | 2.5x |
| BFD | 151 | 96.0 | 1.6x |
| DCS | 1.105 | 578.0 | 2.1x |
| GDC | 124 | 44.2 | 2.8x |
| HIN | 437 | 69.4 | 6.3x |
| NDC | 858 | 272.0 | 3.2x |
| WGW | 503 | 268.0 | 1.9x |

AVERAGE OF MIDDLE 5 COMPANIES 2.4x

AVERAGE OF 7 COMPANIES 2.9x

SH PRO FORMA 1.8x

$$\frac{\$492}{\$275} = 1.8$$

NOTE: THE INVENTORY AT THE BEGINNING AND END OF THE FISCAL YEAR IS AVERAGED.

A1447

## INTEREST COVERAGE

### INCOME BEFORE INTEREST AND TAXES ("IBI") DIVIDED BY INTEREST COST
($MILLIONS)

| COMPANY | IBI | INT | COVERAGE |
|---|---|---|---|
| ADC | 5.2 | 1.0 | 5.3x |
| BFD | 32.1 | 2.3 | 13.7x |
| DCS | 130.0 | 27.0 | 4.8x |
| GDS | 4.3 | 2.2 | 1.9x |
| HIN | 43.9 | 5.9 | 7.4x |
| NDC | 78.9 | 15.5 | 5.1x |
| WGW | 106.0 | 5.9 | 18.0x |

AVERAGE OF MIDDLE 5 COMPANIES 7.3x

AVERAGE OF 7 COMPANIES 8.0x

SH PRO FORMA 5.7x ~~6.2x~~

$\frac{\$49.9}{\$\ 8.7} = \frac{5.7}{\cancel{6.2}}$

## RATIO OF LONG TERM DEBT ("LTD") TO CASH FLOW ("C.F.")*
($MILLIONS)

| COMPANY | LTD | CF | RATIO IN YEARS |
|---|---|---|---|
| ADC | 9.5 | 2.6 | 3.6 |
| BFD | 20.0 | 16.9 | 1.2 |
| DCS | 149.0 | 82.0 | 1.8 |
| GDS | 23.1 | 1.7 | 14.0 |
| HIN | 72.3 | 25.1 | 2.9 |
| NDC | 276.0 | 58.9 | 4.7 |
| WGW | None | N.A. | --- |

AVERAGE OF 5 MIDDLE COMPANIES 2.9 Years

AVERAGE OF 7 COMPANIES 4.0 Years

SH PRO FORMA 2.8 Years

$$\frac{\$71.5}{\$22.0 + 3.4} = 2.8 \text{ Years}$$

* Net income plus depreciation

A1443

## LONG TERM DEBT ("LTD") AS A PERCENT OF TANGIBLE NET WORTH ("TNW")
($MILLIONS)

| COMPANY | LTD | TNW | % |
|---|---|---|---|
| ADC | 9.5 | 34.3 | 28 |
| BFD | 20.0 | 111.0 | 18 |
| DCS | 149.0 | 686.0 | 22 |
| GDS | 23.0 | 35.0 | 66 |
| HIN | 72.0 | 864.0 | 83 |
| NDC | 276.0 | 442.0 | 62 |
| WGW | None | N.A. | 0 |

AVERAGE OF MIDDLE 5 COMPANIES 39%

AVERAGE 7 COMPANIES 40%

SH PRO FORMA 27%

$\frac{\$71.5}{\$269.0} = 27$

## PRETAX RETURN ON CAPITAL AND EQUITY

($000)

| | PRETAX EARNINGS PLUS INTEREST ON LONG-TERM DEBT | EQUITY | CAPITAL (EQUITY PLUS LONG-TERM DEBT) | RETURN EQUITY % | RETURN CAPITAL % |
|---|---|---|---|---|---|
| AMERICAN DISTILLING 9/30/70 | 2,543 | 34,331 | 43,806 | 6.2 | 5.9 |
| BROWN - FORMAN 4/30/71 | 30,898 | 126,046 | 146,046 | 23.6 | 21.2 |
| DISTILLERS CORPORATION* 7/31/70 | 111,676 | 685,926 | 835,184 | 15.0 | 13.4 |
| GLENMORE DISTILLERS 6/30/70 | 3,285 | 35,860 | 58,988 | 5.4 | 5.6 |
| HEUBLEIN, INC.* 6/30/70 | 42,659 | 95,606 | 167,951 | 39.7 | 25.4 |
| HIRAM WALKER 8/31/70 | 100,173 | 392,054 | 392,054 | 25.6 | 25.6 |
| NATIONAL DISTILLERS* 12/31/70 | 78,884 | 457,026 | 733,152 | 13.9 | 10.8 |
| | AVERAGE OF SEVEN COMPANIES | | | 18.5 | 15.4 |
| | AVERAGE OF MIDDLE FIVE COMPANIES | | | 16.9 | 15.3 |
| SCHENLEY'S PRO FORMA Schedules B and C | 46,466 | 273,000 | 345,000 | 15.3 | 13.5 |

* Companies with substantial non-distilling assets and operations

A1150

A1151

SCHENLEY PRO FORMA

EARNINGS

The fair value of Schenley as an operating company was obtained by capitalizing its pro forma earnings, set forth below, which reflected its 1970 pre-tax and pre-interest earnings, excluding Buckingham, after the withdrawal of $140,000,000 and reducing short-term debt by $27,000,000. Interest expense was computed at the prevailing rate of 5.5% for $62,600,000 of short-term debt and at 6.5% for long-term debt of $71,500,000. Schenley's 1970 interest and dividend income was considered attributable to the redundant assets and was eliminated.

SCHEDULE C

## SCHENLEY PRO FORMA EARNINGS

| | | (000) |
|---|---|---|
| 1970 pre-tax earnings before interest* | | $47,913 |
| Less: Income on Glen Alden 6% Debentures | 1,228 | |
| Other Interest income | 530 | |
| Dividend Income | 442 | (2,200) |
| | | $45,~~876~~ 713 |
| Plus: 1970 Excess Cost of Redistilling Neutral Grain Spirits (Non-Recurring) | | 4,163 |
| | | $49,876 |
| Pro Forma Interest | | 8,090 |
| | | $41,786 |
| Tax at 47% | | 19,639 |
| Pro Forma Net Income | | $22,147 |
| Preference Stock Dividend | | 99 |
| Net Income Available to Common | | $22,048 |
| Common Shs. Outstanding after Conversion of $1.40 Preferred | | 10,274 Shares |
| Earnings Per Share | | $2.15 |
| Price earnings multiplier of 16 = see Schedule C-1 | | 34.40 Per Snare |

* 1971 Schenley 10K, Item 2

SCHEDULE C-1

PRICE EARNING RATIOS

| COMPANY | FISCAL YEAR | LAT. 12 MOS END | FISCAL EPS-DIL | EARNS ADJ | EPS-DIL LAT 12 MOS | MKT 6/17/71 | STOCK EXCH | P/E RATIO |
|---|---|---|---|---|---|---|---|---|
| ADC | 9/30/70 | 3/31/71 | $1.28 | (.19) | $1.09 | $19-1/2 | NYSE | 17.9x |
| BFD | 4/30/71 | 4/30/71 | $1.32 | - | $1.32 | $27-1/2* | ASE | 20.8x |
| DCS | 7/31/70 | 4/30/71 | $3.23 | .13 | $3.36 | $51-1/4 | NYSE | 15.3x |
| GDS | 6/30/70 | 3/31/71 | $0.72 | .49 | $0.23 | $12-1/2 | ASE | 54.3x |
| HIN | 6/30/70 | 3/31/71 | $1.36 | .13 | $1.49 | $48-1/2 | NYSE | 32.6x |
| NDC | 12/31/70 | 3/31/71 | $1.13 | (.09) | $1.04 | $17 | NYSE | 16.3x |
| WGW | 8/31/70 | 5/31/71 | $2.82 | (.07) | $2.75 | $37-3/4 | NYSE | 13.7x |

AVERAGE OF MIDDLE 5 COMPANIES 20.6x

AVERAGE OF 7 COMPANIES 24.4x

SOURCES: PRICES - NEW YORK TIMES 6/18/71
FISCAL YEAR DILUTED EARNINGS FROM COMPANY - ANNUAL REPORTS
INTERIM EARNINGS FROM COMPANY - QUARTERLY REPORTS AND RELEASES

NOTE: BFD "A" VOTING SHARES 20.3x P/E RATIO

* "B" NON-VOTING SHARES

A1453

EX. 155C-1

38 FOR EXHIBIT NUMBER

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

DAVID J. GREENE & COMPANY, et al.,

Plaintiffs,

vs. Civil Action No. 3542

SCHENLEY INDUSTRIES, INC., et al.,

Defendants.

County Court House
Wilmington, Delaware
June 9, 1971
11:00 A.M., D.S.T.

Before:

HONORABLE WILLIAM MARVEL, Vice Chancellor

Appearances:

COHEN, MORRIS & ROSENTHAL by IRVING MORRIS, ESQ. and
POMERANTZ, LEVY, HAUDEK & BLOCK by JULIUS LEVY, ESQ., (of the New York bar), attorneys for plaintiffs.

MORRIS, NICHOLS, ARSHT & TUNNELL by S. SAMUEL ARSHT, ESQ., and
FRIED, FRANK, HARRIS, SHRIVER & JACOBSON by LEON SILVERMAN, ESQ., (of the New York bar), attorneys for defendant Glen Alden Corporation.

RICHARDS, LAYTON & FINGER by LOUIS J. FINGER, ESQ. and
SIMPSON, THACHER & BARTLETT by WILLIAM J. MANNING, ESQ., (of the New York bar), attorneys for defendant Schenley Industries, Inc..

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VIRGIL VARALLO - HENRY D. SKOGMO
Official Reporters, Chancery Court
135 Public Bldg., Wilmington, Del 19801

fact that the debentures here involved are of a speculative nature?

MR. ARSHT: Sure they are. That's why they are being valued by us at some 77 or 78 percent of face rather than 110 or 120. Of course, they are not United States government bonds. That's why they are being valued by the experts on both sides at --

THE COURT: I think Mr. Goldstein discounts them, if that is the right word, at 70%.

MR. ARSHT: Yes, and our experts say he is all wet, and 77-1/2 or 78 ought to be the figure. He treats them as though 7-1/2% bonds were identical with 6% bonds. On its face that is silly. Seven and a half percent bonds are worth more than 6% bonds because you get $1.50 more interest per bond. But apart from that the 7-1/2% bonds are relatively short-term and will be paid off before the corporation is obliged to pay very much in the way of sinking fund payments on the 6% bonds. The 6% bonds don't fall due until the year 2002. There is something suspect about an expert who takes these two bonds and says because they are both issued by Glen Alden they must both be weighed the same. He was either being careless with his judgment or careless with the facts, because he could not be that unknowledgeable.

Additionally Mr. Levy has pointed out and said

what the loss to the 17,500 stockholders would be. It would be tremendous. That is the likelihood. Now, whether it would be $100,000,000 or half that amount, or even a quarter of that amount, I can't say. But we don't have to get down to a refinement of whether it is $50,000,000 or $25,000,000 or $75,000,000 or $100,000,000. It is large; it is stupendous. And when that is balanced against the fact that this plaintiff will be hurt not one penny by the denial of his injunctive relief, then it seems to me the cases and the equities compel the conclusion that on a balancing of the equities the plaintiff's application must be denied.

Finally, and I am going to leave this point to my friend to develop, plaintiffs must show that there is a reasonable probability of his ultimately prevailing in this lawsuit. Under the decisions of this Court, your Honor's decision in Bastian, which the Supreme Court affirmed per curiam, under your Honor's decision in Bruce versus E.L. Bruce Company, under Vice Chancellor Short's decision in Stauffer versus Standard Brands, which the Supreme Court affirmed, under Chancellor Seitz' decision in Sterling versus Mayflower, which the Supreme Court affirmed, and under Chancellor Duffy's decision in Greene versus

USA 33s-475
(ED. 4-23-71)

did not even come to final hearing, I say th

the facts of this case all point strongly to

PLAINTIFF
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

Schenley has some $150,000,000 of surplus cash. It has. That is one of the facts in the case. As the Court might expect, and as the Court would have a right to criticize if management had not made plans for the utilization of this amount of cash, the defendants have.

Now, if plaintiffs should succeed in this attempt to get a preliminary injunction, defendants' plans for the utilization of that cash will have to be abandoned. The damage that would result from that abandonment would be tremendous, and compared to the harm which plaintiff says he will suffer, which we have already shown to be nil, he couldn't begin to put an injunction bond indemnifying these defendants for the amount of their loss and damage, to say nothing of the fact that he is depriving some 17,500 other stockholders of their opportunity to get this deal if they want it, or an appraisal if that is their preference.

THE COURT: On this balancing of the equities, if I were to grant the type of relief now sought by plaintiff what sort of bond would your client ask for?

MR. ARSHT: About $100,000,000.

THE COURT: You mean that's what you might expect to lose in the event the injunction was found to have been improperly issued ultimately?

MR. ARSHT: I don't know how much we would lose and

A1458 DEFENDANT'S EXS.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | 802 |
| | | | | Fees | | | |
| 1 | 5/17/71 | Original Purchase | | [illegible] | | | [illegible] |
| 2 | | | | | | | |
| 3 | 9/17/71 | Fees charged to R.A. | 633433 | | 2068904 | | |
| 4 | 12/17/71 | Fees charged to R.A. | 42139 | | 342151 | | |
| 5 | | [illegible] | | (25402622) | | | (26 326 9[illegible] |
| 6 | | | | | | | |
| 7 | 9/71 - 9/75 | Repurchases from RA | | 13907410 | | | 15125972 |
| 8 | | | | | | | |
| 9 | | | | | | | |
| 10 | 9/30/75 | Net Purchases | | 25105042 | | | 26 [illegible] |
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USA 335-475
(ED. 4-23-71)

DEFENDANT

EXHIBIT
U. S. DIST. COUR
S. D. OF N. Y.

A

DEFENDANT 0019

A1459

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

B

SCHENLEY, NORTHWEST SIGN
AGREEMENT ON 'CUTTY SARK'

Northwest Industries, Inc. and Schenley Industries, Inc. have announced (Friday, Oct. 30) that they have signed a "memorandum of understanding" in which are set forth major terms of an agreement for the purchase by Northwest Industries from Schenley of all the outstanding capital shares of the Buckingham Corporation, a wholly owned subsidiary, for $120,000,000 in cash and notes. (Buckingham is the exclusive United States importer and selling agent of Cutty Sark Scotch whisky.)

The "memorandum of understanding" will be followed by a formal agreement to be signed as quickly as possible. Other major terms of the agreement call for Schenley to guarantee that over a five year period (1971-75), case sales of Cutty Sark in prescribed categories will not fall below a specified average annual level, and to guarantee Buckingham's net worth. Consummation will take place as promptly as feasible but no later than December 31, 1970. Furthermore, consummation of the transaction is conditional upon obtaining the approval of the appropriate state and federal authorities and completion by Northwest Industries of satisfactory financing arrangements.

- 0 -

A1460

The New York Times
Date: October 31, 1970
Page: 46 Lt

**Northwest Industries And Buckingham Corp.**

A memorandum of understanding was signed yesterday by Northwest Industries, Inc., and Schenley Industries, Inc., setting the major terms of an agreement for Northwest to purchase all the outstanding capital shares of the Buckingham Corporation, a Schenley liquor-importing subsidiary, for $120-million in cash and notes.

The agreement calls for Schenley to guarantee that case sales of Cutty Sark Scotch whisky during the five years of 1971-75 will not fall below a specified average annual level and to guarantee Buckingham's net worth.

A1461

Wall Street Journal – 2 November 1970

# Northwest Industries to Buy Buckingham, Importer of Cutty Sark, for $120 Million

*By a* WALL STREET JOURNAL *Staff Reporter*

CHICAGO – Northwest Industries Inc. agreed to acquire all the outstanding capital shares of Buckingham Corp. from Schenley Industries Inc. for $120 million in cash and notes. Negotiations on such an agreement were disclosed previously.

Buckingham is the exclusive U.S. importer and selling agent of Cutty Sark brand Scotch whisky, said to be this nation's best-selling Scotch brand. In 1968, the latest year for which full results were disclosed, Buckingham had sales on a duty-paid basis of $116 million, net sales of $63.3 million, pretax net income of $19.5 million and net income of $9 million.

Buckingham's 1969 pretax net income exceeded $20 million, Isidore A. Becker, Schenley's chairman, said.

For Northwest, a conglomerate with aggressive acquisition ambitions, the purchase would be the first major move along that line since it made an unsuccessful bid more than a year ago to acquire control of B.F. Goodrich Co.

Schenley is 84%-owned by Glen Alden Corp., which in turn is 65%-owned by Rapid-American Corp. Northwest and Rapid-American had confirmed negotiations on the sale a week earlier. According to Wall Street sources, Rapid-American has been under pressure from the Antitrust Division of the Justice Department to divest itself of Buckingham. Rapid-American has denied reports that it was seeking to sell the unit because of liquidity problems related to its long-term debt structure.

Terms of the agreement require that Schenley guarantee that case sales from 1971 through 1975, in prescribed categories of Cutty Sark won't fall below a specified average annual level. Schenley apparently would pay Northwest penalties on a per-case basis if sales failed to reach the guaranteed levels. A Northwest spokesman declined to comment further on details of this arrangement. Schenley's Mr. Becker said the complex details are still being worked out.

The agreement also requires that Schenley guarantee Buckingham's current net worth at a minimum of $15 million. Mr. Becker said the company's net worth currently exceeds that figure.

Mr. Becker said the portion of the $120 million purchase price to be paid in cash hasn't been determined, but the payment will be mostly cash.

A memorandum of understanding signed Friday will be followed by a formal agreement and consummation of the transaction as promptly as possible, but no later than Dec. 31, Northwest said. Shareholder approvals won't be required for either company, officials said.

The purchase is conditional on obtaining approval of appropriate state and Federal authorities and completion by Northwest Industries of satisfactory financing arrangements, Northwest said.

Northwest's current operations are in the railroad, steel, industrial products, chemical, apparel and footwear industries. It recently agreed to sell its railroad, the Chicago & North Western, to a company formed by the railroad's employes, subject to Interstate Commerce Commission approval. If consummated, that transaction is expected to produce a tax credit for Northwest in excess of about $200 million, which can be used to offset future earnings.

It recently reported net income for the first nine months of $27.6 million, or $1.64 a share, on sales and revenue of $593 million.

DEFENDANT

EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

A1462

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

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| DAVID J. GREENE & CO., et al., Plaintiffs, | ) | Civil Action No. 3542 |
| v. | ) | |
| SCHENLEY INDUSTRIES, INC., et al., Defendants. | ) | AFFIDAVIT IN SUPPORT OF MOTION FOR TEMPORARY INJUNCTION |

STATE OF NEW YORK )
) SS.:
COUNTY OF NEW YORK )

CARL GLICK, being duly sworn, deposes and says:

1. I am a partner in the firm of David J. Greene & Co., which is a plaintiff herein. Since 1946, I at all times have been a security and financial analyst, first with Kuhn, Loeb & Company, investment bankers, and, since 1951, with plaintiff David J. Greene & Co., a member firm of the New York Stock Exchange and the American Stock Exchange and a registered investment adviser. I am the partner in charge of the Corporate Finance Department and responsible for the activities of clients in the fields of mergers, acquisitions, financings, valuations, real estate and related areas. I hold a degree of Bachelor of Business Administration (Statistics) from The College of the City of New York, and a degree of Master of Business Administration (Banking and Finance) from New York University. I am a member of the New York Society of Security Analysts and the

Institute of Chartered Financial Analysts has conferred upon me the designation of Chartered Financial Analyst.

2. This affidavit is submitted in support of plaintiffs' application for a temporary injunction restraining the merger of Schenley Industries, Inc. ("Schenley") with Glen Alden Subsidiary Corporation, a wholly-owned subsidiary of Glen Alden Corporation ("Glen Alden") pursuant to a Plan and Agreement of Reorganization dated May 21, 1971.

3. I have read the complaint filed on behalf of the plaintiffs herein and am familiar with the facts as stated and alleged therein. The facts as stated and alleged are true to my own knowledge except as to those matters stated on information and belief and as to those matters I believe them to be true and correct, except as revised and corrected in the supporting affidavits herein.

4. In connection with the review and analysis of Schenley and the proposed merger which follows, I have examined annual reports, proxy statements, and reports to the Securities and Exchange Commission issued by Schenley, as well as reports by other companies and published data with respect to the various companies and the distilling industry. I have also reviewed and analyzed the Schenley proxy material dated May 21, 1971 which submits the merger agreement for approval by Schenley's stockholders (hereafter "Merger Proxy Material").

5. I have also reviewed and analyzed the opinion and views of Burnham & Company as set forth in the affidavit of one of its partners, Lawrence J. Goldstein, submitted herewith.

6. I join in and share their strong conviction that the proposed merger is grossly unfair and inequitable to Schenley's minority stockholders. Indeed, the Merger Proxy Material confirms that the proposed merger was designed to enable Glen Alden, its parent Rapid American Corporation ("Rapid") and the key controlling persons in this Rapid empire to take over Schenley for their own benefit and to freeze out the Schenley minority public stockholders. Since Glen Alden's ownership of 83.7% of the votes of Schenley makes the approval of the merger a foregone conclusion, this result can be prevented only through this Court's granting of a temporary, and ultimately a permanent, injunction.

7. Thus the Merger Proxy Material proclaims that,

> "Schenley will transfer to Glen Alden substantial funds of Schenley including a substantial part of the proceeds received by Schenley from the recent sale of its subsidiary, the Buckingham Corporation" (Merger Proxy Material, p. 1).

* * *

> "***These funds will initially be added to Glen Alden's general working capital and will provide a source for payment of current maturities of Glen Alden's long-term debt" (id. p. 3).

The total amount thus being up-streamed would, in my opinion, be virtually all of Schenley's surplus cash -- $155,000,000. By contrast, Schenley's minority public shareholders are forced to accept Glen Alden debentures, rated as "outright speculations" and a miniscule amount of cash totalling $26 in value, for their Schenley shares even though:

> Those shares have a book value of $40.44 per shares of which $15 per share is surplus cash.
>
> The earnings reached a new high level in 1970 and continued their rise for the first quarter of 1971.
>
> The prices paid previously by Glen Alden for its Schenley shares are double their present offer and the value of those investments have admittedly "not declined in value" (Merger Proxy Material, p. F 13).

In short, Schenley's fiduciaries are in effect taking up-stream Schenley's business with its huge pool of surplus cash while cutting off Schenley's minority public stockholders from sharing equitably in either.

8. This result of a grossly inequitable and unfair plan is the product of the conflict of interest in which Schenle Glen Alden and the controlling principals are enmeshed. It reflects the complete absence of any independent representation by independent representatives negotiating vigorously at arm's-length for the benefit of Schenley's public minority stockholders.

EXHIBIT
U.S. DIST. COURT
S. D. OF N. Y.

A1466

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

6-1-71(4)

Civil Action No. 3542

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STATE OF NEW YORK )
) ss.:
COUNTY OF NEW YORK )

LAWRENCE J. GOLDSTEIN, being duly sworn, deposes and says:

1. This affidavit is submitted in support of plaintiffs' application for a temporary injunction restraining the merger of Schenley Industries, Inc. ("Schenley") with Glen Alden Subsidiary Corporation, a wholly owned subsidiary of Glen Alden Corporation ("Glen Alden") pursuant to a Plan and Agreement of Reorganization dated May 21, 1971.

2. Burnham and Company, an investment banking firm, of which I am a general partner, has been retained by David J. Greene & Co. to review the terms of said proposed merger and to make an evaluation of its fairness to the minority public stockholders of Schenley.

53. In 1969 and 1970, Schenley used surplus cash resources totalling $13,784,000 to purchase debentures of Glen Alden, its parent. The balance sheet carries this asset as an investment. Since the debentures were presumably purchased in the open market and can be readily sold, I have added them to current assets in the above table.

Surplus Cash

54. At December 31, 1970, the financial condition of Schenley was strong and liquid with a large amount of cash surplus to the needs of the ongoing business.

55. As a result of the sale of Buckingham and the domestic wine division, I estimate the surplus cash resources of Schenley will amount to approximately $155,000,000 or about $15 per share (assuming the preferred is fully converted).

Financial Comparison
With Similar Companies

56. Standard & Poor's industry survey of the distilling industry sets forth the composition of the industry as follows:

> "Distillers Corp. - Seagrams, Hiram Walker-Gooderham & Worts, National Distillers & Chemical, and Schenley Industries dominate the liquor industry, particularly in domestic whiskies. American Distilling, Brown-Forman, Glenmore, Publicker Industries and the Fleischman division of Standard Brands are other important whisky producers. Most of these firms are also important in importing liquor and producing domestic white liquors.